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# HEARINGS AND REPORTS

OF THE

*U.S. Congress: House.*

## COMMITTEE ON BANKING AND CURRENCY.

OF THE

### HOUSE OF REPRESENTATIVES

RELATING TO

#### PROPOSED CHANGES IN THE CURRENCY SYSTEM OF THE UNITED STATES.

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PREPARED FOR PUBLICATION BY  
FRANK ROE BATCHELDER,  
CLERK OF THE COMMITTEE.

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FIFTY-FIFTH CONGRESS, THIRD SESSION.

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1898-99.

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WASHINGTON:  
GOVERNMENT PRINTING OFFICE  
1899.

**COMMITTEE ON BANKING AND CURRENCY.**

**FIFTY-FIFTH CONGRESS.**

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## THE INCORPORATION OF CLEARING HOUSES UNDER FEDERAL LAW FOR THE PROTECTION OF COMMERCIAL CREDIT.

COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C., Wednesday, April 13, 1898.*

The committee met at 10.30 a. m., Hon. Joseph H. Walker in the chair.

Present: Messrs. Walker, Johnson, Van Voorhis, McCleary, Fowler, Spalding, Hill, Southwick, Prince, Mitchell, Capron, Cox, and Ermentrout.

Theodore Gilman, esq., a banker of New York City, appeared before the committee in advocacy and explanation of the bill H. R. 9279.

[Bill H. R. 9279, Fifty-fifth Congress, second session.]

In the House of Representatives, March 17, 1898. Mr. Bartholdt (by request) introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.

A BILL to protect and support commercial credit, to equalize rates of interest, to provide for the incorporation of clearing houses, to regulate and define their operations, to provide a clearing-house currency secured by pledge of commercial assets and the responsibility of the associated banks, and to provide for the circulation and redemption thereof.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That associations, to be known as clearing houses, for the settlement of money transactions by effecting clearances between banks, and for doing other business for and between banks not inconsistent with the provisions of this act, may be formed by any number of banks not less than five duly incorporated, either under the national currency act or under the laws of any State or Territory, of which a majority shall be organized under the national currency act, in any city of not less than six thousand inhabitants, who shall enter into articles of association for the regulation of the business of the association and the conduct of its affairs, which said articles shall be approved by the stockholders of each bank uniting to form the association at a meeting called for the purpose and shall be signed by the officers of each bank by authority conferred upon them to do so by vote of the stockholders, and a copy of them forwarded to the Comptroller of the Currency, to be filed and preserved in his office.*

SEC. 2. That the banks uniting to form such an association shall, by their proper officers, make an organization certificate, which shall specify—

First. The name assumed by such association, which name shall be "The Clearing House of (giving the name of the city where located and where its business of effecting clearances shall be carried on)."

Second. The names, the amounts of the capital stock, and the number of shares into which it is divided, of the banks composing the association.

Third. A declaration that said certificate is made to enable such banks to avail themselves of the advantage of this act.

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The said certificate shall be acknowledged before a judge of some court of record or a notary public, and such certificate, with the acknowledgment thereof authenticated by the seal of such court, shall be transmitted to the Comptroller of the Currency, who shall record and carefully preserve the same in his office. Copies of such certificate, duly certified by the Comptroller and authenticated by his seal of office, shall be legal and sufficient evidence in all courts and places within the United States or the jurisdiction of the Government thereof of the existence of such association and of every other matter or thing which could be proved by the production of the original certificate.

SEC. 3. That every association formed pursuant to the provisions of this act shall, from the date of the execution of its organization certificate, be a body corporate, but shall transact no business except such as may be incidental to its organization, and necessarily preliminary, until authorized by the Comptroller of the Currency to commence the business of effecting clearances. Such associations shall have power to adopt a corporate seal, and shall have succession by the name designated in its organization certificate for the period of twenty years from its organization, unless sooner dissolved according to the provisions of its articles of association or by act of the banks owning two-thirds of the capital stock represented in the association, or unless the franchise shall be forfeited by a violation of this act; by such name it may make contracts, sue and be sued, complain and defend in any court of law or equity as fully as natural persons; it may elect or appoint directors, and by its board of directors appoint a president, vice-president, treasurer, and other officers, define their duties, require bonds of them, and fix the penalty thereof, dismiss said officers, or any of them, at pleasure, appoint others to fill their places, and exercise under this act all such incidental powers as shall be necessary to carry on the business of a clearing house for the settlement of money transactions by the mutual set-off of debits and credits, commonly called making clearances for banks, and by obtaining and issuing to the banks composing the association notes according to the provisions of this act, and by acting as trustee for the note holders in accordance with the provisions of this act, by receiving and holding in trust securities pledged by the members of the association as collateral to the notes issued to them, to be called "clearing-house currency," and by acting for the members of the association in their united capacity when authorized to do so by a majority vote of said members; and its board of directors shall also have power to define and regulate by by-laws not inconsistent with the provisions of this act the manner in which its directors shall be elected or appointed, its officers appointed, its property transferred, its general business conducted, and all the privileges granted by this act to associations organized under it shall be exercised and enjoyed; and its usual business shall be transacted at an office or banking house located in the place specified in its organization certificate.

SEC. 4. That the affairs of every association shall be managed by not less than nine directors, one of whom shall be the president, a majority of whom shall be directors in banks, members of the association which are organized under the national currency act. Every director shall, during his whole term of service, be a citizen of the United States, and at least two-thirds of the directors shall have resided in the State, Territory, or district in which such association is located one year next preceding their election as directors, and be residents of same during their continuance in office. Each director when appointed or elected shall take an oath that he will, so far as the duty devolves on him, diligently and honestly administer the affairs of such association and not knowingly violate, or willingly permit to be violated, any of the provisions of this act, which oath, subscribed by himself and certified by the officer before whom it is taken, shall be immediately transferred to the Comptroller of the Currency, and by him filed and preserved in his office. At the annual meetings there shall be appointed or elected a loan committee, whose duties shall be as described in sections nine and ten of this act. Members of this committee shall not be eligible for reelection or reappointment until one year after their terms of office shall have expired. They shall be divided into three classes at their first election or appointment, one-third shall serve one year, one-third two years, and one-third three years, and at every election or appointment thereafter they shall be elected or appointed for a term of three years.

SEC. 5. That the directors of any association first elected or appointed shall hold their places until their successors shall be elected and qualified. All subsequent elections shall be held annually on such day in the month of January as may be specified in the articles of association, and directors so elected shall hold their places for one year, and until their successors are elected and qualified; but any director having in any manner become disqualified shall thereby vacate his place. Any vacancy in the board shall be filled by appointment by the remaining directors, and any director so appointed shall hold his place until the next election. If from any cause an election of directors shall not be made at the time appointed the association shall not for that cause be dissolved, but an election may be held on any subsequent day, thirty days' notice thereof in all cases having been given in a newspaper published in the city, town, or county in which the association is located. If the articles of association do not fix the day on which the election shall be held, or if the election should not be held on the day fixed, the day for the election shall be designated by the board of directors in their by-laws or otherwise: *Provided*, That if the directors fail to fix the day, as aforesaid, banks representing two-thirds of the capital stock represented in the association may.

SEC. 6. That in all elections of directors, and in deciding all questions at meetings of members of the association, each bank member shall be entitled to a representation equal to the minimum number of directors allowed by law to said bank, but no bank organized under a State or Territorial law shall be entitled to a greater

representation at such meetings than that of a national bank. Directors of a bank who shall be appointed to represent said bank at meetings of the association may vote by proxy duly authorized in writing, but no officer, clerk, teller, or bookkeeper of such association shall act as proxy, and no bank any of whose liabilities are past due and unpaid shall be allowed representation in the board of directors or at the meetings of the association.

SEC. 7. That if, upon a careful examination of the facts so reported, and of any other facts which may come to the knowledge of the Comptroller, whether by means of a special commission appointed by him for the purpose of inquiring into the condition of such association or otherwise, it shall appear that such association is lawfully entitled to commence the business of a clearing house as described in this act, the Comptroller shall give to such association a certificate, under his hand and official seal, that such association has complied with all the provisions of this act required to be complied with before being entitled to commence the business of a clearing house under it, and that such association is authorized to commence said business accordingly; and it shall be the duty of the association to cause said certificate to be published in the city or county where the association is located for at least sixty days after the issuing thereof.

SEC. 8. That the clearing-house association organized under this act, in the chief commercial city in each State, or in the city most central and convenient for business in each State, or any clearing house so organized effecting bank clearings of over two hundred million dollars annually, to be designated and approved by the Comptroller of the Currency, shall be made a clearing house of issue. And if there shall be more than one clearing house of issue in a State, then the Comptroller of the Currency shall divide the State into clearing-house districts, and banks in each State or district shall do business only with the clearing house of issue in their State or district.

SEC. 9. That a clearing house of issue shall be authorized and empowered to receive from its bank members, or from any bank member of a clearing house within its State or district, with the approval of the directors of said clearing house, commercial assets, promissory notes, bills of exchange, convertible bonds and stocks, and other securities and evidences of debt as collateral security for the circulating notes of the said association, to be issued as provided in this act, and on the approval of the value of said commercial assets by its loan committee, the said clearing house of issue may deliver to said bank member seventy-five per centum of said value in its said circulating notes as an advance upon said pledged property, and shall require from said bank member its promissory note of equal amount, which note shall be in form as approved by said clearing house of issue. The bank member taking said circulating notes shall engage to redeem them in the lawful money of the United States at all times upon demand of payment duly made during the usual hours of business at the office of such bank member, and also when called upon to do so by the clearing house issuing the notes, and to give any additional collateral needed to restore any depreciation in the value of the assets pledged, on demand; and on failure to comply with such demands before the close of business hours of the day when made said bank member shall be adjudged in default, and shall be thereupon closed pending an examination by a committee from the association which issued the notes. On recommendation by the examining committee the loan committee shall proceed to liquidate the loan by turning the securities into cash, in accordance with the method provided in section ten. The bank member taking said notes may release its securities from pledge by depositing with the said clearing house of issue clearing-house currency, United States legal-tender notes, or coin certificates, with any charges made by said clearing house of issue, whereupon it shall be entitled to and shall receive all its securities so pledged. The charges shall be regulated by each clearing house of issue. Upon the receipt of such deposit the clearing house of issue shall immediately give notice in a newspaper published in the city, town, or county in which the association is located, which notice shall be published at least once a week for six months successively, that the notes of such bank member will be redeemed at par, and that all the outstanding circulating notes of such bank member must be so presented for redemption within six years from the date of such notice, and all notes which shall not be thus presented for redemption and payment within the time specified in such notice shall cease to be a charge upon the funds in the hands of the clearing house for that purpose. At the expiration of such notice it shall be lawful for the clearing house of issue to surrender, and such bank member, or its legal representative, shall be entitled to receive, all the money remaining after such redemption, except so much thereof as may be necessary to pay the reasonable expenses chargeable against the said accounts, including the payment for the publication of the above-mentioned notices.

SEC. 10. That each bank member taking such circulating notes shall guarantee the clearing house of issue from loss resulting from such issue to them, and in case of a default in the payment of a loan when demanded by the clearing house of issue or of default arising in any other manner, then it shall be the duty of said clearing house of issue to levy upon all the clearing houses in said State or district, in pro-

portion to the capital of their bank members, a sufficient sum to provide for the payment of said loan, which sum shall be held for the payment and redemption of the circulating notes so issued. And if enough money can not be obtained by such assessments, then it shall be the duty of said clearing house of issue to report to the Comptroller of the Currency the fact of said default, and it shall be his duty to levy a further assessment upon all the clearing houses organized under this act in all the States and Territories until such sum is secured, in which case the funds so raised by the Comptroller shall be paid by him to the Treasurer of the United States as a special fund to pay the circulating notes of the defaulting bank member; and he shall appoint a receiver for the collateral securities to the loan or loans in default, who shall take possession thereof and turn them into cash and distribute the proceeds to the banks which have contributed to the assessment, and any surplus after reimbursing them their advances shall be handed over to the bank member in default or its legal representative. But if the assessment by the clearing house of issue on the banks of its State or district is sufficient to provide the needed funds, then the collaterals shall be administered upon and turned into cash by the loan committee or by a liquidating committee of said clearing house of issue, and the cash proceeds shall be appropriated as above provided. At no time shall the total amount of such notes issued to any bank member exceed the amount at such time actually paid in of the capital stock of the bank member so applying. And said loan committee are charged with the duty of supervising said loans so as to maintain the margin of value of the collateral security, and shall demand additional securities to make good any depreciation in their value, and they may allow withdrawals and substitutions of securities which shall not diminish the said value.

SEC. 11. That a clearing house of issue shall be authorized and empowered to receive from its bank members gold coin of the United States of full weight, and may deliver to said bank member its circulating notes at the par of the gold coin so deposited, and the said bank member shall engage to redeem said circulating notes at all times when called upon to do so by the association issuing them. Such notes may be issued to any bank member in exchange for gold coin without regard to the amount of the capital stock of the bank depositing the gold coin. The clearing house of issue shall make report of notes so issued to the Comptroller of the Currency and shall make no charge for the issue of its notes against the deposit of gold.

SEC. 12. That in order to furnish suitable notes for circulation as provided in this act, the Comptroller of the Currency is hereby authorized and required, under the direction of the Secretary of the Treasury, to cause plates and dies to be engraved, in the best manner, to guard against counterfeiting and fraudulent alterations, and to have printed therefrom, and numbered, such quantity of circulating notes, in blank, of the denominations of one dollar, two dollars, five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, and one thousand dollars, as may be required to supply under this act the associations entitled to receive the same, which notes shall express upon their face that they are secured by deposit with the clearing house of issue at (naming the city) of commercial assets at seventy-five per centum of their market value, or of gold coin at its par value, and that said clearing house holds said assets or gold coin as trustee for the note holder to secure their payment, which payment is guaranteed by the associated banks of the United States through any clearing house, and shall be attested by the signatures of the president or vice-president and treasurer of said clearing house of issue as for account of the bank member receiving said notes; and on requisition of a clearing house of issue the comptroller of the currency shall forward the amount of blank notes in denominations as called for as may be required to supply the bank member entitled to receive the same under this act.

SEC. 13. That after any such clearing house of issue shall have caused its promises to pay such notes on demand to be signed by the president or vice-president and treasurer thereof, in such manner as to make them obligatory promissory notes, payable on demand, such clearing house of issue shall deliver them to the bank member entitled to receive them, who is hereby authorized to issue and circulate the same as money, and the same shall be received at par at all the clearing houses in the United States organized under this act; and said clearing house of issue shall thereupon forward to the Comptroller of the Currency a certificate setting forth the amount of notes delivered, the name of the bank member receiving same, and the amount of the collateral security held in trust for their redemption.

And every bank member of every clearing house organized under this act shall take and receive at par, for any debt or liability to it, any and all notes or bills issued by any clearing house of issue organized under this act.

The meeting together of any persons who are officers, agents, or employees of persons, firms, or corporations in any one or more places once in thirty days or oftener, for the purpose of exchanging, paying, or in any other way satisfying any obligations used in commerce among the several States by any two or more of such persons, firms, or corporations, or for the purpose of the settlement of money transactions by the mutual set-off of debits and credits, commonly called making clearances for



banks, shall constitute such persons, firms, or corporations represented in such meeting a clearing house association, for the purpose of the taxation herein imposed, and such persons, firms, or corporations represented shall be jointly and severally liable to pay, and shall pay, into the Treasury of the United States a duty in amount equal to one one-fiftieth of one per centum on the aggregate amount of all such obligations exchanged, paid, or in any way satisfied, or on the aggregate amount of the money transactions settled by the mutual set-off of debits and credits, at each and every meeting of persons acting for such persons, firms, or corporations: *Provided, however,* That in case any such clearing-house association pays one-half of the tax herein imposed on or before the day it is due and payable, the other half shall be and is hereby remitted: *And provided further,* That the tax herein imposed on clearing-house associations herein described shall be wholly remitted to all members of clearing houses that are incorporated under this act.

SEC. 14. That it shall be the duty of the clearing house of issue to receive worn-out or mutilated circulating notes issued by it to any bank member, and also, on due proof of the destruction of any such circulating notes, to deliver in place thereof other circulating notes of like tenor and amount. And such worn-out or mutilated notes, after a memorandum shall have been entered in the proper books, as may be established by the clearing house of issue, as well as all circulating notes which shall have been paid or surrendered to be canceled, shall be burned to ashes in presence of three persons, one to be appointed by the Comptroller of the Currency, one by the clearing house of issue, and one by the bank member on whose account they were issued; and a certificate of such burning shall be made on the books of the clearing house of issue, and duplicates forwarded to the Comptroller of the Currency and to the bank member whose notes are thus canceled.

SEC. 15. That it shall be unlawful for any officer acting under the provisions of this act to countersign or deliver to any association or to any other company or persons any circulating notes contemplated by this act, except as hereinbefore provided and in accordance with the true intent and meaning of this act. Any officer who shall violate the provisions of this section shall be deemed guilty of a high misdemeanor, and on conviction thereof shall be punished by fine not exceeding double the amount so countersigned and delivered and imprisonment not less than one year and not exceeding fifteen years, at the discretion of the court in which he shall be tried.

SEC. 16. That it shall be lawful for any such association to purchase, hold, and convey real estate as follows:

First. Such as shall be necessary for its immediate accommodation in the transaction of its business.

Second. Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

Third. Such as shall be conveyed in satisfaction of debts previously contracted in the course of its dealings.

Fourth. Such as it shall purchase at sales under judgment, decrees, or mortgages held by such association, or shall purchase to secure debts due to said association.

Such association shall not purchase or hold real estate in any other case or for any other purpose than as specified in this section, nor shall it hold the possession of any real estate under mortgage, or hold the title and possession of any real estate purchased to secure any debts due to it for a longer period than five years.

SEC. 17. That the plates and special dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expense necessarily incurred in executing the provisions of this act, respecting the procuring of such notes and all other expenses of the bureau, shall be assessed each year upon the clearing houses organized under this act, in proportion to the capital stock of their members.

SEC. 18. That the Comptroller of the Currency, with the approbation of the Secretary of the Treasury, as often as shall be deemed necessary or proper, or at the request of any clearing house, shall appoint a suitable person or persons to make an examination of the affairs of every association organized under this act, which person shall not be a director or other officer in any association whose affairs he shall be appointed to examine, and who shall have power to make a thorough examination into all the affairs of the association, and in doing so to examine any of the officers and agents thereof on oath, and shall make a full and detailed report of the condition of the association to the Comptroller, who shall fix the compensation for his services.

SEC. 19. That every president, director, treasurer, teller, clerk, or agent of any association who shall embezzle, abstract, or willfully misapply any of the moneys, funds, or credits of the association, or shall, without authority from the directors, issue or put in circulation any of the notes of the association, or shall, without such authority, assign any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or shall make any false entry in any book, report, or statement of the

association with intent in either case to injure or defraud the association, or any other company, body, politic or corporate, or any individual person, or to deceive any officer of the association, or any agent appointed to examine the affairs of any such association, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be punished by imprisonment not less than five nor more than ten years.

SEC. 20. That every person who shall mutilate, cut, deface, disfigure, or perforate with holes, or shall unite or cement together, or do any other thing to any note issued by any such association, or shall cause or procure the same to be done, with intent to render such note unfit to be reissued by said association, shall, upon conviction, forfeit fifty dollars to the association who shall be injured thereby, to be recovered by action in any court having jurisdiction.

SEC. 21. That if any person shall falsely make, forge, or counterfeit, or cause or procure to be made, forged, or counterfeited, or willingly aid or assist in falsely making, forging, or counterfeiting, any note in imitation of, or purporting to be in imitation of, the circulating notes issued under the provisions of this act, or shall pass, utter, or publish, or attempt to pass, utter, or publish, any false, forged, or counterfeited note, purporting to be issued by any association doing business under the provisions of this act, knowing the same to be falsely made, forged, or counterfeited, or shall falsely alter, or cause or procure to be falsely altered, or willingly aid or assist in falsely altering, any such circulating notes, issued as aforesaid, or shall pass, utter, or publish, or attempt to pass, utter, or publish, as true, any falsely altered or spurious circulating note issued, or purporting to have been issued, as aforesaid, knowing the same to be falsely altered or spurious, every such person shall be deemed and adjudged guilty of felony, and being thereof convicted by due course of law shall be sentenced to be imprisoned and kept at hard labor for a period of not less than five years nor more than fifteen years, and fined in a sum not exceeding one thousand dollars.

SEC. 22. That if any person shall make or engrave, or cause or procure to be made or engraved, or shall have in his custody or possession any plate, die, or block after the similitude of any plate, die, or block from which any circulating notes, issued as aforesaid, shall have been prepared or printed, with intent to use such plate, die, or block, or cause or suffer the same to be used, in forging or counterfeiting any of the notes issued as aforesaid, or shall have in his custody or possession any blank note or notes engraved and printed after the similitude of any notes issued as aforesaid, with intent to use such blanks, or cause or suffer the same to be used, in forging or counterfeiting any of the notes issued as aforesaid, or shall have in his custody or possession any paper adapted to the making of such notes, and similar to the paper upon which any such notes shall have been issued, with intent to use such paper, or cause or suffer the same to be used, in forging or counterfeiting any of the notes issued as aforesaid, every such person, being thereof convicted by due course of law, shall be sentenced to be imprisoned and kept to hard labor for a term not less than five nor more than fifteen years, and fined in the sum not exceeding one thousand dollars.

SEC. 23. That it shall be the duty of the Comptroller of the Currency to report annually to Congress at the commencement of its session:

First. A summary of the operations and condition of every association from whom reports have been received the preceding year, at the several dates to which such reports refer, with an abstract of the whole amount of their debts and liabilities, the amount of circulating notes outstanding, and the total amount of means and resources, specifying the amount of lawful money held by them at the times of their several returns, and such other information in relation to said associations as in his judgment may be useful.

Second. A statement of associations whose business has been closed during the year, with the amount of their circulation redeemed and amount outstanding.

Third. Any amendment to the laws relative to clearing houses, by which the system may be improved, and the security of the holders of their notes may be increased.

Fourth. The whole amount of the expenses of carrying out the provisions of this act. And such report shall be made by or before the first day of December in each year, and the usual number of copies, for the use of the Senate and House, and one thousand for the use of the Department, shall be printed by the Public Printer and in readiness for distribution at the first meeting of Congress.

SEC. 24. That the clearing houses organized under this act may organize among themselves associations to include the banks members thereof in any State or district, and may hold annual conventions and meetings at other times, for the formulation of rules and regulations for the conduct of their affairs and for the discussion of financial subjects and for the preservation and exchange of information to govern the granting of credits, and when approved by the Secretary of the Treasury, such rules and regulations shall be binding upon the banks and clearing houses within said State and district.

SEC. 25. That clearing houses organized under this act may form a national association, which shall meet in convention annually, and whose object shall be the promotion of the interests of the banks of the United States receiving the benefits of this act, and said convention may pass rules and regulations to govern the operations of clearing houses and the banks connected with same, which, when approved by the Secretary of the Treasury, shall be binding upon such clearing houses. The delegates to a State or district convention shall number one hundred, and to a general convention three hundred, which numbers divided into the aggregate of the banking capital represented will give in each case the amount of capital to be taken as the basis of representation. The Comptroller of the Currency may unite banks into voting groups where their separate capital is below the basis of representation, and each group shall be entitled to one representative. All elections of representatives to conventions shall be by a majority vote of the directors entitled to vote of single banks and banks composing groups; each bank shall have a vote equal to the minimum number of directors allowed to it by law, but no bank shall be allowed more votes than shall be given to a national bank, and no bank shall have more than one representative in the national association.

Mr. Gilman addressed the committee as follows:

**STATEMENT OF MR. THEODORE GILMAN, BANKER, OF NEW YORK CITY, N. Y.**

MR. CHAIRMAN AND GENTLEMEN OF THE COMMITTEE: In response to the request of the chairman, I will state that my place of business is in New York City. I have been a banker there ever since 1862. My relations have been all over the country, East and West, chiefly outside of New York City.

The CHAIRMAN. A private banker?

Mr. GILMAN. Yes, sir.

The CHAIRMAN. What is the firm name?

Mr. GILMAN. Gilman, Son & Co.

With your leave I will read this letter:

THE STATE BANK OF ST. LOUIS,  
St. Louis, Mo., April 9, 1898.

Hon. J. H. WALKER,  
Chairman Banking Committee,  
House of Representatives, Washington, D. C.

DEAR SIR: I see your committee are to meet on the proposed emergency currency plan of Mr. Theodore Gilman on the 13th instant. I am of the opinion that some plan for such a currency ought to be passed.

You will find in Mr. Gilman's book a few suggestions made by me regarding such a currency and a schedule regarding same.

If we could have had a hundred millions of such currency in 1893 it would have saved half or two-thirds the ill effects of the panic. It may be the present Cuban trouble will make some such measure invaluable now. I can but think something in this direction can be made of immense value to the country.

Very respectfully, yours,

CHARLES PARSONS.

I would like to make two remarks about this letter. One is I was immediately struck with the similarity of this opinion of Mr. Parsons to that of Mr. J. R. McCulloch in 1849 in reference to the panic of 1837.

The CHAIRMAN. Mr. McCulloch who was formerly Secretary of the Treasury?

Mr. GILMAN. No, sir; Mr. McCulloch, of London, the great British financial authority. He wrote that had this principle of a secured currency been adopted then, the crisis of 1837 to 1839 would have been obviated or materially mitigated. Fifty years afterwards Mr. Charles Parsons makes the same remark in reference to the panic of 1893.

The CHAIRMAN. We would be glad if, when you refer to different gentlemen, you would state what positions they hold or who they are.

Mr. GILMAN. Charles Parsons is president of the State Bank of St.

Louis, Mo., and a former president of the American Bankers' Association. I would also call your attention to the last three words of Mr. Parsons's letter—"to the country." He says: "I think something in this direction can be made of immense value to the country." He speaks as a patriot and not as a banker.

Mr. Gilman then proceeded to read a paper which he had prepared, as follows:

#### TWO SYSTEMS OF BANKING.

Mr. Chairman and gentlemen, there are only two systems of banking in use among civilized nations. One system is that in which each bank has a separate individual existence under the laws by which it is incorporated, and in which no bank has a superior position or different functions from any other.

The other system is that in which some banks have different functions and a superior position.

The perception of this distinction is necessary to the right understanding of the phase of the banking question we are about to consider, and, as examples assist in the understanding of abstract propositions, your attention is called to the fact that there are now in the hands of this committee two bills which represent these two systems. One is the bill H. R. 9725, prepared by your subcommittee and introduced in the House of Representatives on April 5, 1898, and the other is bill H. R. 9279, which is the subject of the present hearing. Bill H. R. 9725 represents a system composed of individual banks, and bill H. R. 9279 represents a graded system.

#### THE COMPETITIVE SYSTEM.

The fundamental points of difference between these two systems may be briefly summed up as follows: While bill H. R. 9725 has incorporated in it some special features, which will be hereafter considered, it does not depart from or change the chief characteristic of the national bank act, which is that it provides for individual independent banks, with no relations to each other, and dependent for their solvency upon a cash reserve of a certain percentage of their obligations. From this it necessarily results that in a time of stringency each individual bank becomes a competitor with every other bank for the cash needed to replenish and maintain its reserves, and the only legal means for keeping up the required percentage of lawful money is by restricting discounts and loans and compelling the business public to liquidate and pay up. The methods of this system all naturally gravitate toward and end in panic. Proper names for this system are the ungraded or competitive, or restrictive, or "panic system," according as its different characteristics are to be emphasized.

#### THE COOPERATIVE SYSTEM.

Bill H. R. 9279, on the other hand, provides for the incorporation of clearing houses with limited functions, differing from the existing national banks, but organically connected with them, chief among the functions given to the clearing houses being that conferred upon at least one in each State, which empowers such clearing house to receive from its bank members and to hold as trustees for the public bank assets and to issue thereon at 75 per cent of their ascertained value

circulating notes good at any clearing house in the land. The object of this provision is to sustain commercial and banking credit in times of lack of confidence by providing a means by which demands for circulating notes of undoubted credit may be met, and thereby commerce and trade be sustained without shock to credit.

By this system different functions are bestowed on clearing houses than are or can be safely possessed by commercial banks. Clearing houses are one remove farther away from the business community with their urgent appeals than are popular banks, and their action would therefore be more conservative in this all-important matter of the issue of currency. At the same time they are so closely connected with commercial banks that they can be appealed to and make instant response in case of need. By the incorporation of clearing houses under a Federal law with these special functions a banking system is constituted and it is made cooperative instead of competitive, expansive in case of need instead of restrictive, and forced liquidations and panic are avoided. The clearing houses of the country are thus brought into the closest relations with all commercial banks, and those relations are strictly defined by law, which now they are not, and this union of higher and lower brings all banking operations under the supervision of the Government and constitute a true national-banking system.

The methods of the system so constituted all conspire toward and result in sustaining and protecting commercial credit even under the severest test. Proper names for this system are a graded or cooperative or expansive system, or a system of ample available bank reserves.

#### THE COMPETITIVE SYSTEM FOR PRIVATE PROFIT, THE COOPERATIVE FOR THE BENEFIT OF THE PUBLIC.

There is another difference between these two systems more fundamental and important. It is that the ungraded, competitive, restrictive, panic system is principally constructed for the private pecuniary benefit of the individual banks, while the graded system, with its cooperation, expansion, and ample available reserve, is chiefly for the benefit of the public. Webster said, "Banks are made for the borrowers. They are made for the good of the many and not for the good of the few." The trend of the provisions of the ungraded system is for the protection and profit of the individual bank even to the extent of causing for its protection widespread losses to the commercial public by panic and forced liquidation, while the provisions of a graded system have as their chief object the protection and support of the business interests of the public. These two bills now before this committee are, therefore, in their ultimate analysis, the one, H. R. 9725, a bill for private ends and profits, and H. R. 9279 a bill for the benefit of the interests of the public.

#### TWO NEW FEATURES IN BILL 9275.

A clear understanding of this latter bill, H. R. 9279, for which this hearing is given, will be promoted by incidentally explaining and describing the true nature of the former.

It has already been said that an examination of bill H. R. 9725 shows that it does not change the banking principle contained in and limited by the present national-bank act. The bill adds, however, two features not contained in that act by proposing the issue of reserve notes to take up Government notes and the issuing of circulating notes against bank assets in the hands of the banks.

These are details which are not distinctive and which might be added to any other system or to this system at any other time. Their addition might be approved by some and disapproved by others, but they are only modifications of the present national-banking system, and they leave it in its fundamental features just as at present, a series of separate individual banks numbered one up to over three thousand, and each bank is like every other in all its powers, privileges, and functions.

#### RESERVE NOTES.

It is hardly necessary to consider the feature of the bill which provides reserve notes of banks in place of Government notes, because the fundamental principle of the system is not changed thereby. Also the obligation of the Government regarding the reserve notes is only suspended or dormant, and on the failure or liquidation of a national bank it revives. The relief from the burden of redemption is, therefore, only temporary, and it would be certain to revive at a time when banks generally would be in trouble, and then the plague of redemption would exist as before and under the most unpropitious circumstances.

The Government is too big to hide behind the banks. It must take care of itself. It has had an Independent Treasury since 1840, and no step should now be taken to obliterate the strong line of division between the fiscal operations of the Government and the commercial business of the people.

#### UNSECURED BANK NOTES.

Nor is it worth while seriously to consider the issue of circulating notes by 3,000 separate individual banks against securities in their own possession, because it also does not change the character of the old system. Moreover, the principle of a currency, secured by assets in the hands of a trustee, has become too thoroughly ingrained in the thoughts of the people to admit of being dislodged at the present time. Bank notes on assets in the hands of banks are the most explosive form in which bank credit can be put, and bills issued by 3,000 banks would be certain to produce and aggravate a panic. Why does not the bill provide that these notes shall be accepted by all national banks at par? Is it because they are good enough for the people but not good enough for the banks?

These two features of reserve notes and unsecured bills are joined together, and the banks are required by the bill to incur the obligation of redeeming the debt of the Government assumed by them as a compensation for the privilege of an unsecured note issue. The inducement held out to the banks to do this is the privilege of note issues on their own assets. This is a great concession and a good source of income to banks and a fruitful one in losses to the public.

#### THE PUBLIC, NOT THE BANKS, SUFFER FROM CONTRACTION.

Experience has shown that banks can exercise the function of unsecured note issue and continue to pay dividends even though the public suffers from the resulting panic. In 1837 the banks continued to pay dividends while the country was ruined by the liquidation caused by the retirement of their note issues. Banks have a claim equal to a mortgage on the property of the community, and if a demand for money occurs, they can force liquidations and get back the money loaned,

though the borrower is forced to the wall. Unsecured note issues contract with greater rapidity than any other form of bank credit, and are the greatest source of danger to the business community, but the banks themselves do not suffer from the contraction. So the privilege of note issue on assets in their hands is coveted by banks, and it is used in bill H. R. 9725 to induce them to assume the obligations of redeeming Government notes, which, in the report on this bill, is acknowledged to be a heavy burden.

Granting all that is said in the report of your special subcommittee as to the safety of unsecured notes, the chief argument against them is left unanswered, that they are like scythes to mow down the business which the banks have created. As Governor Marcy said, in his message of January 3, 1837, of an unsecured paper circulation, this is an evil "against which it is the duty of the legislature to afford ample and certain protection."

#### TRUE NAME, "THE PANIC SYSTEM."

Bill H. R. 9725 is, therefore, the present competitive, restrictive, panic system of banking, with two additional features, the assumption of the payment of Government notes and the issue of notes on assets in the hands of each one of the 3,000 or 4,000 banks. Whether or not these two features are a recommendation or a disadvantage, the underlying, fundamental, controlling characteristic of the banking system contained in or proposed by the bill H. R. 9725 is the same as contained in the national-bank act; that is, one of separate, individual banks, no one of which is different in any respect from any other.

There is no cooperation between banks proposed in the bill, and in case of panic each of the 3,000 banks must fight for its own life. This produces restriction of banking facilities at the first sign of monetary disturbance, nor is there any provision for the support of commercial credit in time of panic. The true name for such a system is the "panic system."

#### GOVERNMENT FINANCES SHOULD BE INDEPENDENT.

I am not here to criticise this bill, and I only point out its chief characteristics as I understand them, that this committee may see clearly what is proposed to accomplish by bill H. R. 9279. That bill which is the subject of the present hearing is a banking and currency measure, and has nothing to do with the finances of the Government. These two subjects should be kept distinct. The independence of the United States Treasury from the banking operations of the people was established, as I have said, in 1840, and the advantages resulting to the Government from this separation have been almost universally acknowledged. The financial principle seems well established that the Government should take care of its obligations, and corporations created by the Government of theirs.

If the Government is in need of revenue to defray its expenses in peace or in war, it must find the ways and means to raise a revenue sufficient to meet them. If the demand notes of the Government are presented in excess of the ability of the Treasury to pay them in coin, the Government must find the ways and means to replenish its coin reserve. If Congress should decide not to make such provision, the banks must accept that decision for they are powerless to change it. Their province is to do business in the currency which the Government provides,

not to decide what that currency shall be. The laws of banking govern banking operations whether the currency is silver or gold or an irredeemable paper money. The whole matter of the currency of the Government is outside of the banking question, and the two should be separated and taken up and decided apart from each other. The banking system should not be the battlefield for warring currency factions.

Banking and currency are matters relating to corporations created by the Government and relating to the people and to their commercial transactions, all of whom are persons and subjects of the Government, so no apology is needed for asking the attention of the Committee on Banking and Currency to a bill which treats only and exclusively of banking and currency.

#### BENEFITS OF A GOOD BANK CURRENCY.

While Government and bank currency are two distinct questions, it is also true that a good banking currency will aid the country in maintaining a good Government currency. If the bank currency sustains and protects commercial credit, there would be less discussion of the money question. A good bank currency would give the advocates of silver and fiat money all they are striving for, while they would be grievously disappointed with the result of free silver and unlimited Government currency. The inflation caused by free silver or fiat money would take place once, and that would be the end of it. A few would be made rich, but it would not be the farmer, nor cotton grower, nor mechanic. Can the people of a mining State be sure that those who would amass fortunes would remain in those States to spend them? Would they not come east or go to London or Paris?

But a good banking system would remain in the State to perform its functions season after season and year after year, conveying the life-blood of commerce through the veins and arteries of the body commercial that are now well-nigh bloodless and paralyzed. Free silver could not benefit a mining State as could free banking facilities. "Credit," said Daniel Webster, "has done more a thousand times to enrich nations than all the mines of all the world." So a bill to protect credit will do more to enrich the United States than its mines can ever do.

#### NATIONAL-BANK ACT SHOULD STAND WITHOUT AMENDMENT.

Bill H. R. 9279 does not disturb or conflict with the national-bank act. It is supplementary to it. Popular banks are provided for in the national-bank act, and the measure now under consideration proposes that that act shall stand without amendment. The national-bank act is admirable in all its provisions; it is the flower and fruit of republican banking legislation; it has served the people well these thirty-five years, it has their confidence, and is enshrined in their affections. A change in that act would be most risky and most serious. Moreover, no changes are required in it, for it is difficult to see how a general law could be made more perfect. Also hundreds, and perhaps thousands, of legal decisions have been rendered by the courts defining the meaning of its various sections, and successive Congresses have revised and amended it, and digests have been made of these decisions and amendments until a code of banking law has grown up in these thirty-five years around the national-bank act which is one of the most valuable products of our national legislation. To lose all this, to sweep it away with a new national-bank act, would inflict such a loss on our



people that it should not be thought of except under the direst necessity. No such necessity exists. What is needed is to complete the national-banking system, not to change it. Bill H. R. 9279 proposes to do that by incorporating our clearing houses under a Federal law, and thus bring all banking operations under Federal supervision and control.

#### COMPLETION OF NATIONAL BANKING SYSTEM.

The conception of the framers of the national-bank act is thus fulfilled by taking the last step necessary to bring all the banking operations of the country into the one system. When clearing houses are thus incorporated under a Federal law, it will be safe to give to them special functions which can not be conferred safely on popular banks, chief among which is the power to act as trustees for the public by holding in trust securities pledged by popular banks against which circulating notes may be issued at 75 per cent of their ascertained value, good and receivable at any clearing house in the nation.

This function can be safely given to at least one clearing house in each State, so as to secure a local issue of currency, and the exercise of this function will remedy the only defect in our banking system, which is the absence of the power of self-preservation and of the protection of commercial credit. This change would make it impregnable, and, like our judicial system, the foremost among the banking systems of all the nations of the earth.

#### THE PROTECTION AND SUPPORT OF COMMERCIAL CREDIT.

If it is asked what is the reason for this addition to our banking laws, the answer is, because there is no provision in the national-bank act and none is proposed in bill H. R. 9725 for the support of commercial credit, and for lack of such support we have seen of late years successive panics march over our land, destroying and prostrating business almost to the point of the exhaustion of the country. Every emergency or disaster, or war or rumor of war, reveals the weakness of our system, which trembles at the first approach of danger, because it is conscious of its lack of protection.

The great business need of our country to-day is the assurance of the protection of commercial credit.

#### COMMERCIAL CREDIT DEFINED.

The bill which is the subject of this hearing has for its chief object to support commercial credit. By commercial credit is meant the solvency of solvent individuals, firms, and corporations engaged in commerce and finance. To support the credit of solvent parties is to provide means and measures to insure their solvency. Solvency is that state of a sound concern, be it corporation, firm, or individual, in which it is able to provide the money necessary to carry on its business and meet its obligations out of its cash on hand, or upon sales of its notes or property, or by loans thereon.

Insolvency may overtake a concern by reason of losses and misfortunes, or insolvency may occur when the concern has met no losses and has ample bank balances to its credit and its hands full of good assets, but owing to a monetary disturbance it can not draw money from the bank or find purchasers for its property, however low the price may be fixed, or obtain loans on its notes, however well secured by valuable

assets. The support of commercial credit, which this bill contemplates, is that of solvent concerns who can make good and valid obligations, and who can offer abundant assets as security for loans, and of whose credit and ultimate solvency there can be no question.

It might appear that strong parties, individuals, firms, and corporations of the kind described are not in need of protection, but are amply able to take care of themselves, and it therefore becomes necessary to show that our present banking system does not contain provisions to afford this class sure protection to their solvency, nor does bill H. R. 9725 contain such.

#### CREDIT MAINTAINED BY CASH RESERVES.

It is first necessary to mention the fact that all business is done on the credit system; that every concern or individual having a surplus of unemployed cash will seek immediately to invest in some productive employment as much of its idle cash as may not be needed, retaining only so much thereof as may be required to meet demand calls. This is the universal practice in all business, whether commerce, manufacture, agriculture, mining, banking, or any other employment. Each department of business has its rule as to the safe amount which can be invested in a permanent way and what percentage of cash may be required to insure ability to meet all demands for cash. This percentage of idle or uninvested money each concern calls its reserve. The continual question among all corporations and business men is as to the amount of cash which should be kept on hand to insure solvency. On the one hand, there is the necessity of solvency, and on the other the desire to keep all capital employed, and there is a continual strife between the two. The difficulty in arriving at the correct ratio is so great that it has been found necessary to regulate by statute the percentages of reserves which shall be carried by banks and insurance companies.

#### THE CREDIT SYSTEM UNIVERSAL.

This survey shows that the whole business community is conducting its business of every shape and description on the credit principle. The basis of the idea of credit is that the business world has confidence that a firm or corporation can conduct its business safely with a cash reserve and that markets and banks will be open for sales and loans to provide all its possible needs.

There is a mutual dependence of all departments of business each upon the other, and if this cooperation does not exist solvency can not be maintained. Reserves must be kept up and be available, or solvency is destroyed. Markets must be open, or business comes to an end. Banks must be able to discharge all their functions, or business must be suspended and markets must be closed.

All business being thus mutually dependent and transacted on the principles of the credit system, it follows that each one and all of the 1,080,000 firms, corporations, and individuals engaged in business in the United States, according to mercantile reports, are doing business on credit, all have a cash reserve, greater or smaller, and all have assets, which in case of need they would turn into cash, either by sale or direct pledge or by making paper against them if their standing and responsibility would enable them to do so.

It can be safely said that there are no firms, individuals, or corpora-

tions doing business in the United States on a strictly cash basis; that is, no firms have all their cash in coin in their own custody and pay coin for all purchases and sell only for coin on delivery. A firm doing business in that manner would soon find themselves distanced by competition and unable to make money.

#### **CREDIT SYSTEM MUST BE PROTECTED.**

The basis of all business in the United States being the credit system, every business man is vitally interested in having the credit system work smoothly. He first wants to be absolutely sure that his reserve, which he calls his cash on hand, is at all times subject to his demand. This means that the banks which are the custodians of his cash shall be at all times ready to respond to his calls, even if he should ask for the payment of all that is due him.

He wants, secondly, that in case of need he shall be able to increase his cash means by pledge of either his credit or his assets for a temporary loan if the cash reserve he has provided has been diminished or exhausted, and, thirdly, he wants the markets open so that he may sell his property without sacrifice on the basis of a fair return to himself and a fair equivalent to a buyer.

#### **ALL THE NATION INTERESTED.**

This describes the condition and business wants of the 1,080,000 individuals, firms, and corporations doing business in the United States. Of these there are about 10,000 banks and 1,070,000 other concerns and individuals.

These 1,070,000 individuals, firms, and corporations represent those who are the owners of the manufactories, trading companies, and firms of the manifold descriptions which go to make up the various occupations of the people of the United States. They are the ones who give employment to the 2,500,000 employees engaged in railroad and other transportation; they pay the wages of the 5,000,000 operators in our factories of all kinds; they hire the 4,200,000 women and men who are engaged in domestic and personal service; they ultimately pay the salaries of the 1,000,000 men and women engaged in professional work. They are the busy, thinking, energetic, active, pushing men who are doing the manufacturing, merchandising, and trading of our country, and the welfare of their employees and dependents, and thus of the whole country, rests on the orderly working of the credit system. If a panic comes to upset that system, then distress is not only felt by the 1,070,000 individuals, firms, and corporations engaged in business, but by all their dependents, and the legislators who can devise and enact a law which will support the credit system will confer a benefit on every man, woman, and child throughout the nation.

This view of reserves is from the standpoint of the 1,070,000 concerns who make up the business community. We sometimes limit reserves to the idle cash held by banks, but in a true sense every business concern has its separate reserve, and it is represented by its bank balance or quick securities. Bank balances should be regarded as the reserves of the country.

#### **PRESENT BANKING SYSTEM PRECARIOUS.**

We can now see how precarious is the monetary situation in the United States if the country banks, as they are permitted to do under

the national-bank act, immediately lend out from 75 to 85 per cent of these reserves and then send one-half or two-thirds of the remaining cash to reserve agents, who in turn loan out 75 per cent of the cash reserve sent to them and hold the balance, not as a special fund for the benefit of the banks whose reserve it is, but merge it into their common reserve on all their general deposits, and at the same time have no way of repaying the reserves thus confided to them if an emergency arises, except by forcing liquidations on the borrowing public. The banks hold the reserves of the public ostensibly on demand and then put 80 per cent thereof beyond their call. This practice is a distinct weakening of the banking situation if there is no way by which the banks can get back this money except by distressing borrowers.

Suppose it should happen that all the deposit reserves should be called for by out-of-town banks, then a simple calculation shows that the banks in reserve cities would hardly be left with more than 5 per cent in cash on their remaining deposits, which would then amount to about \$750,000,000.

This state of affairs would be very alarming in any less intelligent country than the United States, and it exposes even us to a constantly recurring liability to spasms of apprehension and panic, during which the three objects desired by the business community and necessary for the support of the credit system are imperiled, viz, the payment of bank balances in cash, and the granting of needed loans to the business community, and the keeping of markets open.

#### PROTECTION TO CREDIT BY A SOUND CREDIT CURRENCY.

The simple expedient necessary to prevent this liability to apprehension is to enact laws to protect reserves, not only the reserves of the banks, but the reserves of the business community represented by bank deposits, and to give banks the power to grant accommodations as needed.

The power to issue a credit currency will do it, provided it is, as Professor Sumner expresses it, "of a credit which can not fail in the wildest panic."

A credit currency issued by 3,000 local banks on assets in their own hands, as proposed in bill H. R. 9725 would not answer. In a wild panic that would fail. It must have a credit second only to the Government, which will enable it to circulate freely from one end of the country to the other, because it is to do the service of maintaining the reserves of all the 1,070,000 individuals, firms, and corporations who are bearing the business burdens of the entire country and are paying the salaries and wages of the 15,000,000 to 17,000,000 workers, men and women, engaged in honest labor. It must be a currency which will go at par from Maine to Texas and up to the farthest point of Alaska. It must be able to support the credit of a solvent firm or corporation in Massachusetts by paying a debt due in Iowa, or vice versa. The transactions under the credit system are so interlaced and interwoven all over the country that that system can not be supported except by a currency of universal credit. The clause in the charter of the Bank of France states it plainly thus: "The essential interests of the country imperiously demand that every bank bill declared to be lawful money shall be able to circulate equally in all parts of the land."

#### EFFECTS OF APPREHENSION.

Whenever a spasm of apprehension comes, which of late years has been almost a chronic condition, the banks stop lending or discounting

and thus stop much productive business. That is the first effect. By it the availability of the collateral security reserves of business houses in the shape of bonds and dividend-paying stocks is cut off, and they must depend on their cash or bank deposit reserves only. If the apprehension deepens, even the use of this cash reserve is diminished and a next step is taken when the banks find it necessary to strengthen their own cash reserve by absorbing cash from the general public. The movement is a progressive one, and the tightening goes on until enough of the life blood of commerce is squeezed out of the general public to restore reserves and to relieve the banks of the danger caused by the paucity of their cash on hand.

The diminution of the reserves of business houses must take place at the same time with a diminution of bank reserves—that is, loans are wanted when banks are least able to respond. The demand always comes when the supply is lowest. The mode by which this dilemma may be avoided is by the creation of money to serve for the temporary emergency.

The bank has no money to lend, its cash being reduced to the lowest percentage of required reserves; but the borrower has good security and needs money.

#### **RELIEF THROUGH INCORPORATED CLEARING HOUSES.**

It is in this juncture that the measure proposed in bill 9279 would bring relief. Under the restrictive system the borrower would have to go without, and he would sacrifice just so much of his property as was necessary to maintain his solvency. In an active business this frequently causes a final liquidation, which is commercial death. But with a system of incorporated clearing houses, such as is proposed in bill 9279, such a contingency could not occur. Banks could always get advances to enable them to pay depositors and to lend customers all the money needed for legitimate purposes.

Clearing houses incorporated under a Federal law, as proposed in this bill, would be authorized to receive bank assets from their bank members, and advance 75 per cent of their estimated value in notes created for the purpose, whose credit could not be questioned from Maine to Alaska, because the notes are receivable at any clearing house in the land, and there is a trustee to act for the note holder who has in his possession ample collateral security, and whose faithfulness to his trust can not be questioned. That trustee is the clearing house. This is not an inflation, or the creation of capital, for that existed before in the security, but it is a change of its form into a circulating medium, on the assumption that when the round is performed by the circulating notes the borrower will have disposed of enough property in the ordinary course of his business to secure the cash needed to retire the notes. This is a most beneficent operation from every point of view, as it benefits everyone concerned therein and is done with entire safety to all. The proof of its goodness is that it may be done to any extent which legitimate business demands.

#### **IDEA SUGGESTED BY CLEARING-HOUSE CERTIFICATES.**

The idea of this form of currency was suggested by clearing-house certificates, with which the public has become familiar in recent years. The methods which have been so successful in producing absolute safety in these certificates have been applied to the proposed currency. The object aimed at was to produce as strong a currency as the banks could make so that it could not fail to be good in any panic.

If the unsecured notes of 3,000 banks are good as said in the report of your subcommittee, these secured notes of 45 State clearing houses would be immeasurably better.

#### DIFFERENCE BETWEEN CLEARING-HOUSE CURRENCY AND CERTIFICATES.

The great difference between clearing-house currency and clearing-house certificates is that in one case the currency is paid out and the reserves are kept intact, while in the other the precious reserves are paid out and the certificates held in their place. This latter act is an infraction of the law as to reserves which the country winks at. Clearing-house certificates can not be used to any extent outside of the great centers, and they are a dangerous resource at all times, while clearing-house currency could be used everywhere and at all times with safety.

Clearing-house currency is therefore a source of strength to banks, while clearing-house certificates are an evidence of weakness.

Another difference is that clearing-house currency would forestall and prevent a panic, while certificates are issued after a panic has taken place. One is preventive, the other is remedial. The old saying is very true that an ounce of prevention is worth a pound of cure.

Clearing-house currency, therefore, is not an experiment, for the limited and extra-legal form of clearing-house certificates has many times brought safe and certain relief to banks in reserve cities. Should not that be legalized which has been well done extra legally and should not the benefit of the relief be given to all the country which has hitherto been enjoyed by only a part?

#### WITHDRAWAL OF BANKING FACILITIES CAUSES PANIC.

Times of apprehension such as we have just been considering come when any great emergency presents itself. If borrowers can get all the money they want, there is no panic, but our banking reserves under the national-bank act are so small that a general loss of 5 per cent of deposits precipitates a panic. This has brought our banking system into what may properly be called a chronic panic.

During the past fourteen years we have had a succession of panics, each one caused by a special difficulty, but they all have their explanation in the one fact that our banking system has no provision within itself for self-protection. In 1884 the failure of the Metropolitan Bank was said to have caused a panic. Not so. The panic was caused by the fact that banks under our system could only protect themselves at the expense of the public. The withdrawing of banking facilities when most needed was the cause of the panic. That was true also in 1893, when the silver scare took place, as is so strongly and truly stated in Mr. Parson's letter, and in 1895, when the Venezuela message was issued. These were occasions which revealed the weakness of our system. The irritating causes come in many different ways, but the defect in the system is always the same.

What will be the effect of a declaration of war with Spain? We can not tell, but this we know, that under our system a general withdrawal for hoarding purposes of 5 per cent of banking deposits all over the country would leave the banks unable to discount or to sustain credit, or to prevent a panic. We are under the shadow of that danger all the time.

## THE REMEDY IS SIMPLE.

We can talk about it freely because the remedy is so simple. All that is needed is to incorporate our clearing houses under a Federal law, and give to at least one in each State the power to receive from its bank members bank assets, and issue thereon at 75 per cent of their ascertained value circulating notes, good at any clearing house in the land. Then all danger of panic is removed.

France with her 38,500,000 inhabitants has a reserve in the Bank of France of \$600,000,000, in addition to reserves held by other French banks. Germany has given to a few of her banks a reserve power to issue currency without limit, which is practically a reserve of 100 per cent of banking obligations. These enormous reserves preserve those countries free from panic. We are on the verge of war with Spain, and our national banks hold less than 20 per cent of their obligations in lawful money, and the percentage of all banks, national, State, and private, is still less.

## AMPLE AVAILABLE RESERVE REQUIRED.

This is totally inadequate to protect and support commercial and banking credit in the United States, as we know by our numerous panics in late years. An ample available reserve in the form of a legal power to issue a bank currency of undoubted credit, secured by collateral in the hands of trustees, to the par of the capital of the commercial banks of the country, which would be from \$600,000,000 to \$1,000,000,000, is needed to place our banking system on a sure foundation.

This is the one war measure which transcends in importance all other preparations for the national defense, because it protects and sustains commercial and banking credit and with it the welfare of every man, woman, and child in our country.

## TWO BANKING SYSTEMS.

You have before you the two banking systems. One is the competitive, restrictive, liquidating, panic-producing system, which has resulted year after year in spasms of apprehension which too often have produced commercial death to our business men. The other is the cooperative, protective, sustaining system of an ample, available banking reserve, which produces stability and will protect us from panics.

The banking system of France was adopted in the stress of the revolution of 1848, and for fifty years it has maintained an unbroken record for solvency and strength. It was a war measure and strength to resist assaults upon credit was the chief object. An emergency is needed to show us in the United States what is required to make our banking system equally strong with that of France. An earthen embankment is the simplest thing in nature, but it makes a fortress which no cannonading can throw down. So an ample, available reserve is the simplest thing in banking and the easiest to construct by law, but it gives to a banking system a solidity and stability which no panic can overthrow.

## TWO BANKING BILLS.

Gentlemen, you have before you two bills, representing the two systems of banking. Will you advocate that which is chiefly for the benefit of the banks, or that which will benefit all the people of our

land? Will you join the theorists who have an untried scheme they wish to experiment with, or will you act as patriots, and in the light of experience advocate a law which shall protect the commercial and banking credit of the United States against internal dangers and so make the nation able to meet and overcome all foreign foes?

During the reading of the foregoing paper, the following took place:  
Mr. COX. When you speak of 1,070,000 people engaged in business, do you include the farmers of the country?

Mr. GILMAN. No, sir.

The CHAIRMAN. You spoke of different panics. Can not you give us the dates of those different panics?

Mr. GILMAN. Yes, sir.

Mr. FOWLER. In regard to the Metropolitan Bank, is it not a fact that they had the arrangements all made for carrying over that bank by taking its assets, and that there was only one man that prevented it? In your judgment, if that had been done, would we have had that panic?

Mr. GILMAN. I would have to refresh my memory—

Mr. FOWLER. That is the fact, Mr. Gilman, that one man prevented their taking—

The CHAIRMAN. Who was the man?

Mr. GILMAN. I think the panic was on us at that time. It was caused by the operations of the bank as well as by its failure.

Mr. FOWLER. These men were together, and one of the men refused to take these assets; they had to carry the bank through. Now, if they had done that—I have been told that by one of the men that was on the committee—do you think we would have had that panic?

Mr. GILMAN. The occasion would have been removed.

Mr. FOWLER. Your statement in that respect, in view of the facts in the case, would hardly be correct, would it?

Mr. GILMAN. I think it corresponds exactly with my statement. The difficulty was in the banking system and not in the occasion. Every time a panic takes place it is a revelation of the defect in the system, and that may arise from a number of causes.

Mr. FOWLER. This was a revelation of the speculation of the president, that caused the withdrawal of banking facilities.

The CHAIRMAN. Do you mean to say the banking conditions are a fruitful source, or rather the soil in which that seed was planted?

Mr. GILMAN. Yes, sir; that is what I have said. That was true also in 1893, when the silver scare took place.

(Mr. Gilman completed the reading of his paper.)

The CHAIRMAN. There are a few questions that I would like to ask. How would you constitute the capital of this clearing house?

Mr. GILMAN. The clearing houses do not require any capital. They have a financial responsibility equal to all the capital and surplus of all their members.

The CHAIRMAN. They would be made up of the banks—the banking?

Mr. SPALDING. No, the assets.

The CHAIRMAN (continuing). Would constitute the capital, and then you would allow them to use currency instead of the bank. Then currency would freely issue and they would loan this currency to the banks or simply furnish it to them?

Mr. GILMAN. Each clearing house would have the power under this bill to fix the rates of interest which the borrowing bank should pay.



The profit on the loans would be for the benefit of all the members of the clearing house.

The CHAIRMAN. After one or two questions, I suppose Mr. McCleary would have the right to ask questions, and I will yield the floor to him now.

Mr. HILL. I would like to ask a question as to the understanding of a single point. Do you propose to substitute clearing-house currency for further issues of bank currency in case of necessity?

Mr. GILMAN. In case of necessity.

Mr. HILL. What provision do you make for the redemption of your clearing-house currency? It is a demand note issued in small amounts or large amounts as the clearing house sees fit. In other words, it is a direct substitute with all the qualifications and all the provisions that the bank note has?

Mr. GILMAN. Yes, sir.

Mr. HILL. What provision do you propose to substitute for redemption—

Mr. GILMAN. The redemption is made by the bank as it would pay a check. It is not a substitute for redemption, it is the most direct and summary form of redemption.

Mr. HILL. I understand it is now payable back to the bank which issues it, and it returns it with the certificate issued to it. On the other hand, the bank could not present it to the clearing house of issue and have it paid. It must come back through the source in which it went out. You propose to issue it to a third party and they can present it direct for payment?

Mr. GILMAN. Yes, sir.

Mr. HILL. Now, what provision is made for the general clearing houses redeeming them? They have no cash on hand and never have had.

Mr. GILMAN. A clearing house is a place where the solvency of banks, corporations, firms, and individuals is brought to a daily test. This is done by offsetting debits and credits and paying debit balances in cash. No surer method of redeeming bank notes can be found than to require their payment through clearing houses. These notes are receivable at any clearing house in settlement of balances, and would be received by any bank in payment of any debt or liability to it. They are like bank checks. They are forwarded by the banks for collection to the banking associations, from one to another, just as they send checks for collection now, and in that way the amount is kept down to the lowest point of needs of the business community. But, on the other hand, if the bank that has made a loan wishes to take up that loan, it can deposit any form of legal-tender or clearing-house notes, no matter by whom issued—

Mr. HILL. But in the interim, while they do not wish to take it up, it is still redeemable at the clearing house.

Mr. GILMAN. Yes, sir; it must be received at the clearing house and redeemed by the bank.

Mr. HILL. It is only redeemed by the bank—

Mr. GILMAN. As well as by the clearing house.

Mr. HILL. Exactly; that is what I supposed. But what provision has the clearing house to redeem it, with no money on hand?

Mr. GILMAN. The same as any check. Checks are paid at all clearing houses to the amount of \$50,000,000,000 per annum. The collection would give the banks no trouble, because they would simply forward

the notes for collection to the bank, and the payment would have to be made. Payment is required—cash payment.

Mr. FOWLER. I understand Mr. Hill's question was, How do they pay it? They do not pay it at all. They act as agents to forward it for collection.

Mr. GILMAN. They put it to the credit of the depositor; that is payment. They pay it out or send it on for collection, as they choose.

Mr. HILL. They issue a certificate of credit to a bank, and that certificate of credit performs the function of a bank bill. Now, then, suppose the bank has taken it out against time securities. Then, of course, they have to be responsible, as they would for the payment of their own bank notes. But where is the power of the clearing house in the meantime?

The CHAIRMAN. What Mr. Hill desires to know is what you mean when you say "the party" will redeem it. What party? Where, who, how?

Mr. GILMAN. The operation is a very simple one, indeed. The bank which wishes to take out clearing-house currency would apply to the clearing house and deposit securities, and if the securities were approved by the loan committee, the clearing house would issue its notes to the bank at 75 per cent of the appraised value of the securities. The bank would then use the notes for the payment of depositors or any purpose in the ordinary course of their business. Those bills might come on to New York, and if they were sent to us, for instance, we might pay them out or deposit them in our bank. Our bank, if it had an accumulation of those notes more than it could use to advantage, would sort them out—

The CHAIRMAN. When you say "more than they could use to advantage" what do you mean; do you mean pay them out?

Mr. GILMAN. Yes, sir; more than they can pay out in the ordinary course of their daily operations—they would sort out those notes and forward them to the different centers of collection.

Mr. HILL. Clearing houses—

Mr. GILMAN. Or to their correspondents for collection, the same as any draft. They would then be presented to the bank that had made the obligation. They would be its demand obligation.

Mr. HILL. How do they identify them?

Mr. GILMAN. The bill provides that the notes shall state on the face to whom they are issued, and the bank whose demand obligation they are must pay them in cash that is satisfactory to the clearing house.

If \$1,000 of them are presented, the bank would send \$1,000 of gold or currency or a check or whatever would be acceptable to the clearing house that had issued them, and that must be done on the day that demand is made for the purpose of securing absolute payment of the notes, and to keep them at the lowest point that is needed for the demands of business.

Mr. HILL. Then it resolves itself practically into an unlimited issue of the bank bill by the individual banks, with the guarantee of all the banks composing the clearing house, and the bank itself must provide its own redemption, and not the clearing house for the redemption of the money.

Mr. GILMAN. Yes, sir; if you will allow me—

Mr. COX. It does not go that far by a long shot.

Mr. CAPRON. That is the point. In regard to the return of the note to the clearing house, won't you explain that?

Mr. HILL. Your illustration of France and Germany is utterly inconsistent, I think you will find, if you will examine carefully the French

and German systems, because they are required to hold 33 per cent reserve.

Mr. GILMAN. The Bank of France is entirely free, and is under no restriction, except that of prudent management, to maintain any percentage of reserve. It could pay out all its reserve to sustain the commercial credit of France if it so desired, without the violation of any law. The six banks of issue of Germany are required to maintain a reserve of 33½ of their note issues, but they have besides an unlimited power of note issue for emergencies. The French and German systems are therefore amply protected against monetary troubles and they do not have bank panics in those countries. Our country should be protected in the same way. If you will allow me to make another correction of Mr. Hill's remark, and that was he said the proposed issue is unlimited. It is limited to—

Mr. HILL. Seventy-five per cent—

Mr. GILMAN. No, sir; limited to the par of the banking capital of the bank.

Mr. HILL. The clearing house notes are?

Mr. GILMAN. No bank can take out more clearing-house notes than the par of its capital.

Mr. HILL. Then it is really double—that is, in addition to their own bank issues?

Mr. GILMAN. Yes, sir.

Mr. FOWLER. Do I understand that the clearing house as an organization is responsible for a single cent of the obligations issued by any bank?

Mr. GILMAN. The clearing houses are responsible, and they hold securities to protect themselves against all loss, which have been approved by their loan committee. The clearing houses would also make a profit on the loans which would compensate them for the risk.

Mr. FOWLER. No. Suppose the bank fails and the notes are perfectly worthless; who pays the notes that that bank has issued—those clearing-house certificates?

Mr. GILMAN. The clearing house in the first place from the proceeds of the sale of the collateral securities in their hands. If there is any deficiency, it is assessed upon the members of that clearing house.

Mr. FOWLER. And a provision is made for an assessment; in other words, a mutual guarantee system?

Mr. GILMAN. So it is distributed as it was—

The CHAIRMAN. Current redemption of the bank, final redemption of the clearing house. Mr. McCleary has the floor.

At this point the committee adjourned until Saturday, April 16, 1898, at 10.30 o'clock a. m.

COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C., Saturday, April 16, 1898.*

The committee met at 10.30 a. m., Hon. Joseph H. Walker in the chair.

Present: Messrs. Walker, Fowler, Spalding, Prince, Newlands, and Ermentrout.

**STATEMENT OF MR. THEODORE GILMAN, BANKER, OF NEW YORK CITY—Continued.**

The CHAIRMAN. Mr. Gilman, if you want to add anything to your statement of the other day, we will begin there.

Mr. GILMAN. I wish to begin with an historical note.

After the Revolution the process began of changing our laws and customs to bring them into harmony with the principles of the Declaration of Independence. Our banking system was based on the English model, and all the banks of the United States were, like the Bank of England, organized under special charters.

The Bank of the United States was the most conspicuous example of this system, and General Jackson overthrew it "to preserve the morals of the people and the purity of the elective franchise." The free or general banking law of the State of New York was then enacted, April 18, 1838, and was called a second declaration of independence. Banking in the United States on republican principles dates from that time. Its two features were a general law and a secured currency. Those principles have been maintained until the present time, and are now the basis of the Federal bank act. Bill H. R. 9279 does not depart from these principles, and the only changes it proposes are to substitute the clearing house, incorporated under Federal law, in place of an officer of the Government as trustee for the public to hold the collateral to the circulating notes, and bank assets as the security instead of Government bonds.

I would like to emphasize the point that the interests of the people are separate from and antagonistic to the interests of the banks under a banking system with an unsecured currency and a reserve of a certain percentage of obligations, provided there is no means of increasing reserves except by compelling liquidations by the borrowing public.

Out of many authorities on the subject I will read from S. Hooper's book entitled *Currency and Money*.

The CHAIRMAN. Samuel Hooper, of Boston?

Mr. GILMAN. Yes, sir; he writes as "a merchant of Boston" and once was a Member of the House of Representatives. He says:

Whenever the demand for specie has become so urgent that it is difficult to meet it, the banks that have issued the paper money become alarmed for their ability to pay specie. Then commences the remedy for the depreciation of such a currency. When the demand for specie has become so intense or the quantity of it so much diminished as to alarm the banks, the remedy commences. It is a sure though a sharp remedy. It is brought into operation by stopping all discounts at the banks and requiring the payment of all previous loans as they fall due. Traders and merchants are forced at such times to make great efforts to obtain money to pay back their loans to the banks. To do this they must sell property at low prices or borrow money at exorbitant rates. This is the only process by which to remedy the depreciation of a mixed currency consisting partly of paper money redeemable on demand in specie. It is a process which invigorates the currency at the expense of the industry and the enterprise of the country.

And hear what Hon. Nathan Appleton, of Boston, said, as quoted by Mr. Hooper:

But these alternations of bank expansions and nominal prosperity followed by bank contraction, disappointments, and perhaps failures, are very much to be deprecated. The banks, to be sure, have no difficulty in these cases if well managed; the whole pressure is thrown on the mercantile community.

The CHAIRMAN. The whole pressure of what?

Mr. GILMAN. Of a bank crisis; of a panic. The banks do not suffer; the whole pressure of the panic is thrown on the mercantile community. Mr. Hooper continues:

If paper money is ever useful to a country it can only be in great emergencies and it should be reserved as a resource to supply the means for the defense of the country when other resources are exhausted. At such a time it may be used for the business transactions within the country to relieve the coin from that service so that it may be used by the Government in the exigency for the common welfare.

Now, that is exactly what I said, and I did not know that Mr. Hooper had said it.

No blame should be imputed to the banks or to their directors for the inconvenience and distress caused by forced liquidation. They have consulted only the interests of the banks. In doing so they were true to the system.

Mr. FOWLER. Read that again

Mr. GILMAN (reading). "In doing so they were true to the system." That is, when they carry out the system according to its legal provisions.

Mr. FOWLER. It means more than that. It means they were true to the principle of banking.

Mr. GILMAN. If you will allow me to finish this I think you will see he refers to the system of banking then prevailing.

Mr. FOWLER. I know; but he refers not to the system of banking in any given time in the world's history, but to every relation which banking bears to commerce.

Mr. GILMAN. No, sir; he refers to banking under this particular peculiar system.

Mr. FOWLER. What system?

Mr. GILMAN. This system of a large number of banks issuing currency and holding the security themselves, which creates lack of confidence.

The CHAIRMAN. Each independent bank?

Mr. GILMAN. Each holding security in its possession and issuing its own notes. When a lack of confidence strikes the country, and these notes are sent home and the banks will not take them from their customers, and some banks fail and banking facilities are withdrawn, and their customers are compelled to liquidate and forced to sell out at great loss, then the panic which results from this state of affairs is due to the system—

The CHAIRMAN. You mean due to the system that protects them?

Mr. GILMAN. I am just quoting his words—

The interest of the bank is at variance with the public interest. The customers of the bank sustain the loss while the banks have had the profit—

The CHAIRMAN. Who says that?

Mr. GILMAN. That is what Hooper says. Then he goes on—

The CHAIRMAN. Let us have that.

Mr. GILMAN. And says that he advocates as a first step to reform—

That all banking should be under a general banking law, and secondly, that banks should be required to place security for their currency in the hands of a trustee.

These are the two points behind the national banking law—

Mr. FOWLER. I beg your pardon; you are mistaken. All the banks of the South and those following the New York guarantee system, where they put up the securities themselves, put up State securities and every kind of security, and the result was that they broke down completely. They absolutely destroyed the banks, and right by the side of it and succeeding it the system of issuing notes by the banks of the South went on, and through all these crises stood and sustained themselves and did not fail.

The CHAIRMAN. That is a matter which is absolutely incontrovertible. All statistics prove that fact.

Mr. NEWLANDS. Then Hooper is wrong.

Mr. FOWLER. If you will allow me, the possible defense of the proposition is this, the distinction is this, rather, that what you propose to put up is current liquidated wealth; that is the only defense you have

and that is your defense. In your case they put up the current liquidated wealth of the country, while under the system of New York and the one he refers to they put up the time obligations of the State, mercantile, etc.; and there are a great many men in the country to-day who, if they exhausted our Government bonds, would put up railroad bonds, school bonds, and every other sort of thing, and the whole thing has been accepted historically in every part of the world, and more particularly in this part of the country.

Mr. GILMAN. There have never been any losses on the clearing-house certificates; never have been, and never can be.

There have never been any losses on national-bank notes secured by Government bonds, and never can be. These are the two most recent instances of bank currency secured by assets in the hands of a trustee. The losses referred to by Mr. Fowler were due to defective security and not to the principle of a trustee or secured currency. Many railroad bonds have become worthless, but no one advocates on that account to abandon the idea of having a trustee under the mortgage. A trusteeship is a necessity where the ownership of the obligations is participated in by many different persons. The Georgia law of 1838, if I remember correctly, allowed slaves to be used as collateral to bank notes. The limitation to specific classes of collateral is wrong in principle. The banks should be allowed to pledge their assets and the trustee—that is, the clearing house or their loan committee acting for them—should determine as to the sufficiency of the collateral. Experience shows that by this method, on account of their contingent liability, the clearing houses will exercise great prudence to protect themselves from loss, and in so doing they protect the public also.

The CHAIRMAN. Let me ask you a few questions. How would the capital of the clearing houses be furnished?

Mr. GILMAN. The clearing house is only the representative of the associated banks. There is no separate capital, but a clearing house has the responsibility of all the capital of its bank members. Clearing houses are trustees in this bill.

The CHAIRMAN. Trustees of nothing?

Mr. GILMAN. To hold absolute security—

The CHAIRMAN. That brings us right to the point. What is the absolute security they are to hold?

Mr. GILMAN. They are to hold such assets as the banks offer them, and which the loaning committee approve as good.

The CHAIRMAN. Just give us a list of the assets.

Mr. GILMAN. The list of the assets would be commercial assets, promissory notes, bills of exchange, convertible bonds and stocks, and other securities and evidences of debt. These assets are to be received as collateral security for the circulating notes of the said association.

Mr. SPALDING. To the extent of 75 per cent?

Mr. GILMAN. The notes are to be issued at 75 per cent of the appraised value of the assets.

The CHAIRMAN. Now, the idea of Mr. Appleton and Mr. Hooper—both of whom I knew, and I have talked over these financial matters with them—in what you have quoted, went to the point of the coin redemption of currency notes issued by banks. Now, what provision do you make for maintaining the parity between paper money and coin, and how? Their point was that what should be maintained with more certainty and without injury to the public. What is your scheme?

Mr. GILMAN. Bill H. R. 9279 provides that security which is convertible, and which is approved as good security, is deposited with the clearing house as collateral for the loan of its circulating notes; and

the collateral security provides for the ultimate payment of these outstanding notes, the notes being issued at 75 per cent on securities supposed to be worth par, 100 cents. The coin value of those securities being 100 per cent, notes to the extent of 75 per cent of the value are issued on them, and that is like lending 75 per cent of the coin value.

The CHAIRMAN. That we have understood—that is all clear—but that does not meet the point at all. How is the clearing house to get the coin to redeem the notes?

Mr. GILMAN. A clearing house is a place for the mutual set-off of debits and credits. If the coin is not provided to pay the notes by the banks whose obligations they are upon the day of demand, the loan committee of the clearing house must sell those assets to provide the money to take up those notes, and they have a margin of 25 per cent to protect them, and if that margin is not sufficient, then any loss is to be assessed upon the members of the clearing house.

Mr. FOWLER. If exceeding—

Mr. GILMAN. The securities.

Mr. FOWLER. Not only that, but they still have a claim against the bank?

Mr. GILMAN. Yes.

The CHAIRMAN. Is your answer, then, that the coin to redeem these notes and all responsibility for their redemption is to be universal, as it was under the Suffolk system in New England, on the banks, and the clearing house is to be absolved from that?

Mr. GILMAN. The clearing house represents all its bank members. The bank borrowing money of the clearing house is the first guarantor, and if a loss occurs on a loan it is assessed on the other members.

I do not think the Suffolk system is parallel. The Suffolk Bank was the redeeming agent for banks of New England, each providing its own redemption fund. I do not think there was any mutual responsibility under that system. The Suffolk Bank system does not provide a currency which circulates in the community, but one which gravitates in a straight line for the redemption bank. It is a question whether it does not make money scarce in the country and plenty in financial centers.

The CHAIRMAN. I mean, absolved from that obligation?

Mr. GILMAN. No, sir. The clearing house is acting simply as trustee for the public to hold these securities, and if the debt is not paid on demand the loan committee then administers those securities and they provide the money by their sale. If there is a loss which the borrowing bank can not pay, it is assessed on the other members of the clearing house.

The CHAIRMAN. When you say a "debt," you mean when the currency is presented and it is not redeemed they have to sell these securities?

Mr. GILMAN. When any of the currency which has been issued to the bank is not paid upon demand by that bank, that makes the loan immediately due, and the clearing house, as trustee, would immediately proceed to market those securities and close out the loan, and would have then a claim against the bank for any deficiency, and if the bank was insolvent the deficiency would be assessed upon—

The CHAIRMAN. What do you mean by closing out these securities?

Mr. GILMAN. Selling them for coin or legal tender.

The CHAIRMAN. You mean to say the clearing house would sell those securities to-day for gold and redeem these currency notes that they have issued and loaned to the bank in the gold that they got from the sale of these securities?

Mr. GILMAN. Yes, sir; in the gold or other legal tender.

Mr. PRINCE. Now, to make it plain to me, suppose I have a \$20 bill issued by the First National Bank, say, of Galesburg, Ill., under your proposed bill. I present that \$20 bill to the bank and it refuses to pay. I ask for the gold and they refuse to pay it. Do I understand you to say that thereupon the clearing-house association proceeds to dispose of the assets or securities placed in the hands of the trustees in the clearing-house association, and that those securities are converted into coin, and out of that fund or coin I am to be paid the \$20?

Mr. GILMAN. No, sir; the banks wait for the liquidation, not the public.

Mr. PRINCE. How long am I to wait? Say I am a poor man, and present my \$20 as a result of my month's work; say I bring that to the bank, which refuses to pay me, and I want to pay my rent, and if I do not, I will be put out of my house the next day; how am I to get my money?

Mr. GILMAN. Under this law the banks guarantee the payment of that money. All you have to do to get your \$20 is to deposit the \$20 to your credit, or get some friend to do it if you have not a bank account, and get the money. Then the whole process of presenting that note is handed over to your bank and they relieve the business community of the whole matter, and that note would be deposited in the clearing house in payment of the obligations of the bank to the clearing house, and whoever had that note and wanted to collect it would send it to the bank and demand payment; so that the whole thing is taken out of your hands, and you do not have to go to the issuing bank to get your money, but you simply put it in your bank and get the money.

Mr. PRINCE. But I have no bank account and I go to the bank which has issued this \$20. I have worked for this money, and I go to the First National Bank, if you please, of the city of Galesburg, which has promised itself to pay this \$20, and the clearing house has promised that this bank will pay it. It is issued through the clearing house by this First National Bank of Galesburg under your bill. I present the bill to that bank and that bank refuses to pay the bill. It is insolvent; it has collapsed and gone. Shall I wait around the corner somewhere until something is done?

Mr. GILMAN. Say you went to the bank and found a notice on the door, "This bank is closed and in the hands of a receiver." Your note would be guaranteed by the remaining banks of the clearing house and its goodness would be unquestioned and no one would think of refusing to take it at par.

Mr. PRINCE. Is it legal tender?

Mr. GILMAN. It is not legal tender.

Mr. PRINCE. But suppose the man refuses to take it; suppose a man does not want to take it?

Mr. GILMAN. Then you could put it in another bank. It is supposed that anybody who has a small bill to pay can find a friend who has a bank account himself and get him to deposit that, and the bank assumes the collection of the note and the \$20 is put to his credit and he can draw it out and give you the gold immediately on the day he put it in the bank; any holder could get the gold or the legal tenders for the bill of that broken bank immediately, in spite of the failure. The banks would attend to the whole matter.

Mr. PRINCE. Let me get it a little plainer.

Mr. SPALDING. Put the reverse of the proposition—how would you collect your bill?

Mr. PRINCE. I can explain that later on when the times comes. I



have this bill of \$20, and I owe Mr. Fowler rent for the house in which I live. He has sued upon that for forcible entry and detainer to get me out. He wants me out, and if I tender him the \$20 I owe him, which is the amount of rent and all costs up to date, say it just covers \$20, I take \$20 of that kind of money issued through the clearing house to this bank and the bank does not pay me. I stop by Mr. Fowler and I say, "Here it is," and he says, "It is not legal tender, and if not legal tender I will not accept it." And I tender it to the court and the court refuses to accept it.

I then look around, and I have no bank account, and I have no friends; I am without a friend on earth, and I have a family, and I am liable to be turned out of my home. What shall I do? Where shall I go to get the money to pay Mr. Fowler, who will not take the bill I have?

Mr. GILMAN. You can go to any bank, even if you were not known to the bank. If there was any bank in the district, say 10 miles off, you could go to that bank and get your money. The profit to the banks on the currency would lead them to take care of its credit.

The CHAIRMAN. What is the provision of law in regard to that?

Mr. GILMAN. This law provides that these notes are good at the clearing house, and consequently any bank that has those notes can pay them to the clearing house in satisfaction of any debt against them, and that makes them current all over the country.

Mr. FOWLER. Will they take them without discount?

Mr. GILMAN. Without discount.

Mr. FOWLER. Take Mr. Prince's case. Suppose he went to a bank next door, and said: the First National Bank is closed which issued this note for \$20; at what rate of discount, if any, would they take this \$20 bill?

Mr. GILMAN. They are obliged to take it at par. They can afford to pay par because it is good in the clearing house.

Mr. FOWLER. They are not compelled to take it?

Mr. GILMAN. Section 13, line 8, of the bill 9279 provides that the circulating notes "shall be received at par at all the clearing houses in the United States organized under this act," and in section 12, line 17, it provides that "payment is guaranteed by the associated banks of the United States through any clearing house." I suppose no other party can be compelled to take a note that is not legal tender.

Mr. FOWLER. Oh, yes, they can; national-bank notes are not legal tenders, and banks are compelled to take those.

Mr. GILMAN. National banks are not compelled to give legal tenders or gold for national bank notes issued by other national banks. Mr. Prince would be in the same fix with his \$20 national bank note as if it were clearing-house currency. A national bank is only compelled to take it "for any debt or liability to it." So his landlord could refuse to accept a national bank note, and national banks could refuse to give him gold or legal tender for it, and he would have to call in a friend, just as I have suggested. As a matter of fact, national-bank notes and clearing-house currency would both circulate without question. It is provided that these notes shall be received at any clearing house, and that makes them at par.

Mr. FOWLER. How are you going to get them there? Who is going to get them there? Suppose the man was miles away from the clearing house.

Mr. PRINCE. Suppose the clearing house was in Chicago and I am here.

Mr. GILMAN. Competition in business is so active that no difficulty is

ever experienced in cashing absolutely good currency. The great object is to make the notes of undoubted goodness and then to make them receivable by all banks, at all clearing houses over the land, for all debts due to banks. These guarantees would make the notes pass from hand to hand without difficulty. If a bank has an accumulation of these notes on hand they would immediately send them to the issuer—to the bank.

Mr. FOWLER. Suppose they receive this \$20 of Mr. Prince and they did not know what their assets were worth over there, and he says he will not give but \$15, what protection has Mr. Prince got?

Mr. GILMAN. The failure of the bank makes no difference in the goodness of the note. It is guaranteed by all banks. By this process of compelling the banks to accept these notes in payment of their credits at the clearing house it throws upon the banks the burden of collection. That is the point.

Mr. FOWLER. Do you not know that a bank always takes advantage of every piece of paper put to them? They will say, "I do not know anything about this thing." The cashier will say he will not take this because he does not know about it or he will not give more than \$15 for it.

Mr. PRINCE. And I owe you \$20.

Mr. FOWLER. Would he not be unfortunate in that position? That is the point, I understand.

Mr. NEWLANDS. That could be entirely met by making it legal tender to the banks.

Mr. GILMAN. That is accomplished by compelling the banks to accept these through the clearing house.

The CHAIRMAN. Where does the bill compel them to accept directly? What is the provision?

Mr. GILMAN. I read from the bill.

The CHAIRMAN. What is the section?

Mr. GILMAN. Section 9; if you will, please turn to section 9.

Mr. NEWLANDS. What bill is this?

Mr. GILMAN. This is H. R. 9279. The seventh line on the ninth page:

The bank member taking said circulating notes shall engage to redeem them at all times when called upon to do so by the clearing house issuing the notes and to give any additional collateral needed to restore any depreciation, etc.

Now, look at section 10.

That each bank member taking such circulating notes—

The CHAIRMAN. You want to talk right on this point. In line 7, page 9, it says this:

The bank member—

That is, the bank member of the clearing house, I suppose—

Taking said circulating notes shall engage to redeem at all times when called upon to do so by the clearing house issuing the notes.

Now, there is nothing giving a person any right to call for the redemption of those notes at the bank except the clearing house which issues them.

Mr. PRINCE. I suggest this, that the bank member shall be required to redeem at all times said circulating notes when called upon so to do.

Mr. FOWLER. Then you make each bank redeem the notes of all banks. How are you going to fix it then?

Mr. PRINCE. The bank I ask to pay the note refuses to pay it. Then I go, as Mr. Fowler says, next door and it refuses to take it without a

discount. Have you any provision in this bill that, say, the Second National Bank, which is in the building next door engaged in the banking business, will have to take my note at par? That is the point I want to get at and to clear up. This provision does not seem to me to require it.

Mr. GILMAN. Nor does the national-bank act contain that requirement in that form. The demand is made by the clearing house, because the notes would actually come into the hands of the clearing house. I can see that your suggestion would be an improvement to the bill and make it more clear on that point. This provision in reference to the clearing house covers the whole country, and any person in any city anywhere having a note can deposit it in the bank, and every bank in the clearing house is compelled to accept it in settlement of the claims due that bank. Thus, the collection of the note falls upon the person who receives it.

Mr. FOWLER. That would be the depositor?

Mr. GILMAN. The depositor puts it in his bank, which pays it to the clearing house, and by making the clearing house accept it in payment of balances with all the banks in the clearing house, that puts the notes at par.

Mr. NEWLANDS. As I understand your bill, every bank member is compelled to make redemption of its notes it takes from the clearing house, and you say that every other bank member would be willing to accept those other notes issued by another bank member because he could tender them to the clearing house in settlement of claims due the clearing house from him?

Mr. GILMAN. Yes, sir.

Mr. NEWLANDS. Now, that is the inducement, but there is nothing in your law which would compel the other bank member to take the notes of another bank and give par value for them. You simply say the inducement is that he can make use of those notes in settling the claims of the clearing house against him?

Mr. GILMAN. Yes, sir. The case would be exactly the same as now exists with national bank notes.

Mr. NEWLANDS. You are aware that under the national-bank act any holder of any national-bank notes issued by any bank can compel a bank other than the one issuing it to take that note in payment of the obligation due from him to the bank?

Mr. GILMAN. That ought to be included in this bill if it is not here. That point ought to be covered, as there is absolute security, and it is no hardship upon the banks to compel them to accept these notes from the public as well as through clearing houses. That provision is in the national-bank act, was in the old State bank laws, and is contained in the present German banking law of March, 1875.

The following sentence should be added at the end of section 13, page 14, line 14:

And every bank member of every clearing house organized under this act shall take and receive at par, for any debt or liability to it, any and all notes or bills issued by any clearing house of issue organized under this act.

I would also add immediately after the above the following paragraph:

The meeting together of any persons who are officers, agents, or employees of persons, firms, or corporations in any one or more places once in thirty days or oftener for the purpose of exchanging, paying, or in any other way satisfying any obliga-

tions used in commerce among the several States by any two or more of such persons, firms, or corporations, or for the purpose of the settlement of money transactions by the mutual set-off of debits and credits, commonly called "making clearances" for banks shall constitute such persons, firms, or corporations represented in such meeting a clearing-house association for the purpose of the taxation herein imposed, and such persons, firms, or corporations represented shall be jointly and severally liable to pay, and shall pay, into the Treasury of the United States a duty in amount equal to one-fiftieth of one per centum on the aggregate amount of all such obligations exchanged, paid, or in any way satisfied, or on the aggregate amount of the money transactions settled by the mutual set off of debits and credits, at each and every meeting of persons acting for such persons, firms, or corporations: *Provided, however*, That in case any such clearing-house association pays one-half of the tax herein imposed on or before the day it is due and payable, the other half shall be, and is hereby, remitted: *And provided further*, That the tax herein imposed on clearing-house associations herein described shall be wholly remitted to all members of clearing houses that are incorporated under this act.

I would also add in section 9, page 9, line 8, to make it read as follows, beginning with line 7:

The bank member taking said circulating notes shall engage to redeem them in the lawful money of the United States at all times upon demand of payment duly made during the usual hours of business at the office of such bank member and also when called upon to do so by the clearing house issuing the notes, etc.

Mr. NEWLANDS. Does your bill make any provision as to the kind of coin every bank shall keep on hand for the redemption of the circulating notes issued to it by the clearing house?

Mr. GILMAN. No, sir.

Mr. NEWLANDS. That is left to its own determination and discretion?

Mr. GILMAN. Yes, sir; because the present bank law has complete provisions as to reserves, and it is best to leave that law just as it is, and when the clearing-house currency is secured by gold values, and in addition to that, when you add 25 per cent of those values to its security, and also add the guarantee of all the banks in the country, a bank circulation of this description could take care of itself.

Mr. NEWLANDS. Would you expect the bank to keep any funds on hand for that purpose?

Mr. GILMAN. Not for the purpose of providing for notes in addition to its other coin reserve; no, sir.

Mr. NEWLANDS. What do you regard as a safe reserve for a bank to keep against the calls of its depositors?

Mr. GILMAN. I think that the percentages of reserves that should be kept by banks depend upon the system under which the bank is operated. Now the reserves under our national system are entirely inadequate, because there is no provision for self-preservation, and a diminution of those reserves about 6 per cent all over the country for hoarding purposes would cause a panic. But take the Credit Lyonnaise as an example. The Credit Lyonnaise is under the French system, and its advertisements may be seen in the New York papers and elsewhere giving a statement of its condition.

It is an immense bank and it has only about 10 per cent of its obligations on hand in cash. That is according to a calculation I once made. It has 10 per cent more in call loans, and then it has bills receivable which it advertises are "immediately discountable at the Bank of France" to the extent of 50 per cent of its obligations, and adding these reserves together you have 70 per cent of the obligations of the bank, which are under their immediate call, and that makes a strong and impregnable position. It is strong with only 10 per cent in gold on hand; but 10 per cent is sufficient under such a system.

Mr. FOWLER. Under the Credit Lyonnaise system?

Mr. GILMAN. Under the system prevailing in France where the Credit Lyonnaise has its head office.

The CHAIRMAN. That is to say, it is one of the branch banks——

Mr. GILMAN. No, sir; it is not.

Mr. NEWLANDS. He says, in effect, the Bank of France has branches?

Mr. GILMAN. The Bank of France supports the whole banking system of France with its reserve of \$600,000,000 in gold and silver——

Mr. NEWLANDS. As against what amount of deposits?

Mr. GILMAN. I should say that is about 60 per cent of its obligations. It is 85 per cent, I think, of their note circulation, and 60 per cent or 65 per cent of the entire obligations, including their deposits.

Mr. NEWLANDS. You say the amount of reserve depends upon the system; that under the national banking system of this country the reserves are inadequate. What reserves do you understand are kept as a rule by national banks in this country?

Mr. GILMAN. The reserves kept by the national banks vary in different parts of the country. There is a legal requirement of reserve to be held in lawful money. The country banks are required to hold 6 per cent of their deposits in lawful money in their vaults. Banks in reserve cities of the second class are required to reserve 12½ per cent, and banks in central reserve cities 25 per cent. The Western banks, the outlying banks, beyond the reach of our money centers, hold the largest amount of cash reserve. In Colorado, Nevada, California, and Oregon the percentage of reserve held to deposits, according to the Comptroller's report of October 6, 1896, was 29.2 per cent; the amount held above requirements was therefore 23.2 per cent.

In the Eastern States of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut the country banks held 10.7 per cent at that time, having a surplus of only 4.7 per cent above the legal requirements, and yet they held \$162,000,000 of deposits against \$43,000,000 of deposits of the four first-named States, and the other States of the Union are classified between those two extremes. The average of the surplus reserves of the total banks in the United States above the legal requirements were 6.6 per cent at the time named.

Mr. NEWLANDS. When you say that the reserves of the national banks are inadequate, do you mean the legal reserve or the actual reserves that they have?

Mr. GILMAN. I refer in this to the lawful money reserve.

Mr. SPALDING. Kept in the safe?

Mr. GILMAN. Kept in the safe.

Mr. NEWLANDS. Do you refer to the amount required by law, or the amount that they actually keep on hand, if the amount actually kept on hand is in excess of the legal requirement, as inadequate?

Mr. GILMAN. Both are inadequate.

Mr. NEWLANDS. I understand you to say a withdrawal of 6 per cent of the reserves of banks for hoarding——

The CHAIRMAN. Deposits, you mean?

Mr. GILMAN. Six per cent of deposits.

Mr. NEWLANDS (continuing). Would cause a panic?

Mr. GILMAN. I would rather put it in this way: It would put the banks in a position where they would not be able to discount or afford relief to the business community, and they would be obliged to stop discounting and to call in loans to repair their reserves.

Mr. NEWLANDS. About what are the total deposits in the banks of this country according to your understanding?

The CHAIRMAN. Those are all matters of statistics.

Mr. NEWLANDS. I know.

Mr. GILMAN. I should say, according to the report of the Comptroller of the Currency—

The CHAIRMAN. What date?

Mr. GILMAN. October 6, 1896. There are 8,208 commercial banks, including national, State, and private banks, which had deposits of \$2,553,000,000.

Mr. NEWLANDS. Those are national banks?

Mr. GILMAN. National, State, and private banks. There are loan and trust companies and savings banks in addition to that, making 9,456 as a total number of banks reporting, having at that time \$5,075,000,000 of deposits.

Mr. NEWLANDS. Now, leaving out of view savings banks and stating it in round numbers, it would be about \$4,000,000,000?

Mr. GILMAN. The commercial banks, which are the ones we ought to specially regard, have \$2,553,000,000 of deposits.

Mr. NEWLANDS. Then 6 per cent of that would be \$150,000,000, would it not?

Mr. GILMAN. One hundred and fifty million dollars.

Mr. NEWLANDS. A withdrawal of \$150,000,000 of deposits from the banks would create this condition approaching a panic?

Mr. GILMAN. Under the strain of distress, not under the ordinary operations of business. There is a distinction.

Mr. NEWLANDS. If they are withdrawn for the purpose of hoarding, do you not think a panic would be produced by the withdrawal—you make the distinction, I believe, between the withdrawal of deposits and redemption of the cash reserve of banks, do you not?

Mr. GILMAN. Yes. A closing of accounts may reduce deposits by what is equivalent to journal entries, without payment of cash.

Mr. NEWLANDS. How much would a reduction of \$150,000,000 in deposits indicate a reduction in the cash reserve of banks?

Mr. GILMAN. About 6 per cent of deposits, but 33 per cent of the total reserves.

Mr. NEWLANDS. If the deposits were reduced \$150,000,000 in all the banks of the country, what amount of coin reserves would that mean was withdrawn from the banks or lawful money reserves?

Mr. GILMAN. That would be determined by the nature of the withdrawal. If there were simple cross entries by which certain accounts were closed out on one side and certain other accounts were closed out on the other, it might not require any transfer of money particularly; but if that reduction was caused by the demand of interior banks to strengthen their reserves or a demand arising from merchants who desired to put away money in their safe-deposit vaults for the purpose of providing against any contingencies, it would be an entirely different matter, and 6 per cent of deposits withdrawn in this way would be sufficient to throw the whole system out of gear, for it would be equal to the withdrawal of one-third of the reserves.

Mr. SPALDING. New York went through something like that about two months ago.

Mr. NEWLANDS. Do you not think there ought to be some provision requiring a larger reserve to be kept by banks?

Mr. GILMAN. I think that is the great want of the country at the present time and that a reserve can be provided either by the power to issue a credit currency as in the case of the German banks, which does

not cost anything, it is nothing but the legal power, or it can be provided by the actual putting up the money. A reserve provided in either way affords ample protection to the credit system.

The CHAIRMAN. Can you furnish me, and if so, will you do so, the items of the assets and liabilities of the Bank of France anywhere within three or four months after the occupation of Paris by the Germans?

Mr. GILMAN. I will endeavor to do that.

[Subsequently Mr. Gilman furnished the following statement concerning the Bank of France.]

As requested, I now give you a statement of the assets and liabilities of the Bank of France under three dates, June 30, 1870, September 8, 1870, which was the last rendered under the Empire, and June 29, 1871, which was the first rendered under the Republic. Also to assist in understanding same, I give the valuable comments thereon of the (London) Economist in their issue of July 8, 1871.

#### THE REMARKABLE ACCOUNTS OF THE BANK OF FRANCE.

The accounts which the Bank of France has this week again for the first time since September begun to publish, are perhaps the most remarkable bank accounts which have appeared. They represent the effects of a greater destruction in the political elements of credit (taking the war and the civil commotion together) than have ever been known since banking became a trade, and that effect has been shown by the accounts of a bank much larger and stronger than any which has ever before been subjected to an equal or an analogous experience.

The most important fact is that after all the calamities which have happened, even now the Bank of France can not be said to stand at all badly, if we take due account of its peculiar position and circumstances. Of course the liabilities of a bank which has been required by its Government to suspend specie payments, and which pays its outgoings in its own inconvertible paper, are for the present only nominal; they would only become real if specie payments were resumed. But if specie payments were resumed and if the liabilities of the Bank of France in consequence became real, these are what they would be:

Notes and drafts in circulation.....	£89,985,000
Public deposits .....	5,631,000
Private deposits.....	22,246,000
Total .....	117,862,000

and the reserve would be nearly £22,000,000, or very nearly one-fifth. And this is really a very large reserve for a country like France where banking is very little developed.

It is certainly a much larger proportionate reserve than exists in this country (England). The peculiar provision of Peel's act, which separates the banking from the currency reserve, makes a comparison with any other country always difficult, since no other country has any corresponding circulation. But if we take the banking liabilities of six joint-stock banks only, and remember that the reserves of notes and coin in the Bank of England is the only store of actual cash which

England possesses to meet the banking liabilities of these banks and others, we find:

*Banking liabilities of the Bank of England and six London joint-stock banks December 31, 1870.*

<b>Bank of England:</b>	
Public deposits .....	£6,286,000
Private deposits .....	20,283,000
Seven-day and other bills .....	750,000
	<hr/>
	27,319,000
London and Westminster Bank .....	22,869,000
London Joint Stock Bank .....	17,315,000
Union .....	15,413,000
London and County Bank .....	16,506,000
City Bank .....	4,274,000
Consolidated Bank .....	2,496,000
	<hr/>
	106,192,000

And the reserve of notes in the banking department is £12,574,000, or 12 per cent of the banking liabilities. Or if we include the bank-note circulation and make the Bank of England accounts up into the "old form," as it has now for so many years been called, the account is—

*Liabilities, including circulation of Bank of England.*

Bank of England, circulation and deposits .....	£51,512,000
London and Westminster Bank .....	22,869,000
London Joint Stock Bank .....	17,315,000
Union Bank .....	15,413,000
London and County Bank .....	16,506,000
City Bank .....	4,274,000
Consolidated Bank .....	2,496,000
	<hr/>
Total .....	130,385,000

and coin and bullion in both departments is £22,383,000, or 17 per cent of the entire liabilities, whether of banking or of circulation.

In both cases, when we include only six joint stock banks, we find that the ratio of the English reserve to the English liabilities is less than that of the French reserve to the French liability; and the liabilities of these six banks are only an infinitesimal small part of the liabilities of England. If we could give all the liabilities of the private banks—all the liabilities of the English country bankers, whether on deposits or circulation—and all those of Irish and Scotch bankers, we should have a most formidable total. Broadly speaking, the reserve in the Bank of England is the only reserve (except the cash in the till and the comparatively small sums kept in Scotland and Ireland in conformity with the act of 1845) which is held against it; but the French liabilities outside of the Bank of France are, in comparison, very trifling, so that we are left with the great and strange result that after the invasion and after the civil war the credit system of France rests on a larger basis of cash and is supported by a far larger percentage of reserve to liabilities than our English credit system, though the latter is in its ordinary state and has not been tested by either invasion or internal convulsion.

The principal reason of the remarkable present strength of the Bank of France is its unparalleled strength last year. At that time its liabilities were—

Notes and drafts .....	£59,588,000
Public deposits .....	7,031,000
Private deposits .....	17,864,000
	<hr/>
	84,483,000



and its bullion and specie nearly £52,000,000, or 62 per cent of its liabilities. Probably never since banking has become a trade, at least has taken its modern form of a receipt of deposits and an issue of promissory paper, has any bank held so large a proportion of cash reserve to its current liabilities as the Bank of France last year held. Most fortunately these strange and unprecedented political calamities attacked the bank at a period of exceptional strength, and therefore it has been able to surmount them so easily and to stand so well at last.

The next most remarkable point—indeed, in one sense the most remarkable of all, for it is quite new and has never been stated before—is that the advances to the trading community of France have diminished. In September, in the last account which was published till now, the discounts had risen to £64,000,000, while they are now £36,317,000, showing a reduction of nearly half since September. Nothing can speak more conclusively for the substantial soundness, both of the business of the Bank of France and of French commerce in general, than that it should have been possible for the bank to obtain and for the community to make this immense repayment.

The immense augmentation in the paper circulation was obvious, was known before the publication of the accounts, and has therefore been much discussed. There is an important point on which it is desirable that opinions should be clear.

As yet the issue of bank notes by the Bank of France during the invasion has been like the issue of bank notes by the Bank of England in a panic and after the suspension of Peel's act. In such cases with us a great auxiliary circulation of checks is on a sudden rendered less efficient than usual and requires at the same moment a greater support of bank notes or coin than usual. Consequently at that moment of fear an issue of bank notes can occur without depreciation. Just so in France. The metallic circulation has lately been largely hoarded, and therefore the paper circulation is needed to take its place, and has taken it without being depreciated. But soon these hoarded sums of metallic money will come forth—some are now being sent forth on account of the loan—and it is not very easy to see how, if the metallic money comes out, the paper money can remain as large as it is without falling considerably in value.

The enormous augmentation of the loan by the Bank of France to the French Government was a necessity in their position. They obtained the means to make it partly by diminishing their bullion, but mainly by an augmentation of paper currency which they could not have obtained without the leave of the Government. And as the Government gave that leave they were right to obtain the principal benefit from it.

The Bank of France is an institution entirely opposed to all English ideas. The governor and deputy governor are appointed by the State, and they are, in fact, supreme in the bank. And the intervention of the executive Government in banking is opposed to established opinion and to sound political economy. But this much, at least, may be said: If the State in any country begins to foster banking it should do so in such a manner as to have a perfect control over the banking which it fosters.

The French Government did not, like the Government of India with the old Bombay Bank, give the credit of its sanction to a bank over which it had no control. It took absolute authority over the bank, and by means of a council of skilled regents it is enabled to exercise this authority fairly. This may not be as good a system in which deposit banking, at any rate, is open to all the world, but it is the next best substitute for it. And at the moment of this disastrous invasion it has

enabled the State and the bank to cooperate and to aid one another in a singular and felicitous manner.

*Bank of France accounts.*

	June 30, 1870.	Sept. 3, 1870.	June 29, 1871.
<b>LIABILITIES.</b>			
Capital.....	£27,300,000	£27,300,000	£27,300,000
Profits and reserve.....	1,328,000	1,328,000	1,334,000
Notes in circulation and drafts on provinces.....	59,588,000	73,193,000	89,985,000
Public deposits.....	7,031,000	7,151,000	5,631,000
Private deposits.....	17,864,000	18,820,000	22,246,000
Reserve for liquidation of three branches.....			1,040,000
<b>Total.....</b>	<b>93,109,000</b>	<b>107,790,000</b>	<b>127,536,000</b>
<b>ASSETS.</b>			
Cash and bullion.....	51,900,000	82,320,000	21,994,000
Private securities.....	30,315,000	64,250,000	21,482,000
Postponed bills.....			14,856,000
Government securities.....	10,142,000	10,142,000	9,783,000
Treasury obligations.....			47,720,000
Advances to city of Paris.....			8,400,000
Property of the bank, sundries, etc.....	751,000	1,078,000	3,324,000
<b>Total.....</b>	<b>93,108,000</b>	<b>107,790,000</b>	<b>127,537,000</b>

The CHAIRMAN. Can you give me, and will you do so, either a copy of or information as to where I can find the speech of Mr. Goschen in January, 1890 or 1891, concerning the financial condition of the Bank of England?

Mr. GILMAN. Yes, sir; Mr. Goschen's speech is discussed and quoted in a pamphlet written by S. F. Hopkinson, the Leeds proposal and the answer from London.

The CHAIRMAN. The securities, as you call them, that would be pledged by the bank to the clearing house for the currency that the clearing house furnishes the bank would be the ordinary securities or notes that it took in its regular way of business as a bank?

Mr. GILMAN. Yes, sir.

The CHAIRMAN. When a bank issues currency directly against its assets, as is done in France and Germany and was done under the old Suffolk system and under the old State bank system, it issues it against these very securities that under your system it issues?

Mr. GILMAN. Yes, sir; the only difference being that in one case there is the actual pledge of the assets in the hands of a trustee to secure the clearing-house currency, and there is no such pledge when the notes are issued against the assets in their own hands. In France the privilege of note issue is given to one bank, and in Germany to about six. To give the same privilege in our country to 3,000 banks would not follow their example, and would invite disaster. Currency was not issued under the Suffolk system; that was only a method of redemption.

The CHAIRMAN. Then the only difference is in the distinction and positive pledge of specific assets of a bank placed in the hands of the second party, rather than the whole assets of the banks remaining in the hands of the banks as against the notes it issues when the law gives a first lien on all the assets of the bank and its stockholders and the liability of the assessment of the stockholders as security for the currency?

Mr. GILMAN. Yes, sir; that is the difference, and the liability to a lack of confidence. I will say the confidence comes in just at that point.

This describes the method. The object is to make the banks sustain their customers as well as derive a profit from them. This they do by turning to the clearing house to find the remedy for a bank crisis, instead of throwing the whole pressure on the mercantile community, to use the words of Nathan Appleton. The result is that cooperation is thus established, which prevents the interests of the banks from being at variance with the interests of the people. A secured currency with a cooperative system will produce stability, and an unsecured currency, whether under the Suffolk system or any other, will produce panics.

Thereupon the committee adjourned.

**H. R. 9725.—FIFTY-FIFTH CONGRESS, SECOND SESSION.**

**IN THE HOUSE OF REPRESENTATIVES,**

**APRIL 5, 1898.**—*Mr. McCleary introduced the following bill, prepared by the Special Subcommittee of the Banking and Currency Committee, consisting of Hon. James T. McCleary, Hon. George W. Prince, and Hon. John Murray Mitchell; which bill was referred to the Committee on Banking and Currency and ordered to be printed.*

**A BILL** To provide for strengthening the public credit, for the relief of the United States Treasury, and for the amendment of the laws relating to national banking associations.

Issue and redemption division established.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby created a division in the Treasury Department to be known as the Division of Issue and Redemption, under the charge of an assistant treasurer of the United States, who shall be appointed by the President, by and with the advice and consent of the Senate.*

Funds in division of issue and redemption.

**SEC. 2.** That to the division of issue and redemption shall be committed all functions of the Treasury Department pertaining to the issue and redemption of notes and certificates, and to the exchange of coins; and the said division of issue and redemption shall have the custody of the bank-note guaranty fund and of the redemption fund of the national banking associations, and shall conduct the operations of redeeming the circulating notes of national banking associations, as prescribed by law; and to this division shall be transferred all gold coin held against outstanding gold certificates, all silver dollars held against outstanding silver certificates, all United States notes held against outstanding currency certificates, and all silver dollars and silver bullion held against outstanding Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, and such amount of subsidiary and minor coins as the Secretary of the Treasury shall consider necessary for the issue and exchange of such coins, and the funds deposited with the Treasurer for the redemption or retirement of the circulating notes of national banking associations. All accounts relating to the business of this division shall be kept entirely apart and distinct from those of the other divisions of the Treasury Department; and the accounts relating to the national banking associations shall be kept separate and apart from all other accounts in said division of issue and redemption.

Reserve against U. S. notes and silver.

**SEC. 3.** That a reserve shall be established in the division of issue and redemption aforesaid by the transfer to it by the Treasurer of the United States from the general

funds of the Treasury of an amount of gold, in coin and bullion, equal to twenty-five per centum of the amount, both of United States notes and Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, outstanding, and a further sum in gold equal to five per centum of the aggregate amount of the coinage of silver dollars. This reserve shall be held as a common fund, and used solely for the redemption of said notes and in exchange for said notes and for silver dollars and subsidiary and minor coins, as hereinafter provided.

SEC. 4. That it shall be the duty of the Secretary of the Treasury to maintain the gold reserve in the division of issue and redemption aforesaid at such sum as shall secure the certain and immediate redemption of all notes and exchange of all silver dollars presented, as hereinafter provided for, and the preservation of public confidence; and for this purpose he may, from time to time, transfer to the division of issue and redemption any funds in the Treasury, not otherwise appropriated, in excess of a cash balance of fifty million dollars, said cash balance to be determined in the same manner in which it is now determined; and in addition thereto he is hereby authorized to issue and sell, whenever it is in his judgment necessary to the ends aforesaid, bonds of the United States bearing interest at a rate not exceeding three per centum per annum, payable in gold coin at the end of twenty years, but redeemable in gold coin at the option of the United States after one year; and the proceeds of all such sales shall be paid into the division of issue and redemption for the purpose aforesaid.

SEC. 5. That the Secretary of the Treasury may, and he is hereby authorized to, exchange gold coin held in the general cash of the Treasury for notes held in the division of issue and redemption; and he is hereby further authorized to exchange notes of one denomination for a like amount in notes of another denomination, or notes of one of two classes for a like amount in notes of the other class, and may replace notes worn or unfit for circulation by new notes of the same class; but none of these exchanges shall at any time alter the amount of money to be held in the said division.

SEC. 6. That the division of issue and redemption shall, at Washington and at such subtreasuries of the United States as the Secretary of the Treasury may from time to time designate, on demand:

First. Pay out gold coin for gold certificates;

Second. Pay out United States notes for currency certificates;

Third. Pay out gold coin in redemption of United States notes and Treasury notes of eighteen hundred and ninety;

Fourth. Pay out silver dollars for silver certificates of any denomination;

Fifth. Issue silver certificates of denominations of one dollar, two dollars, and five dollars in exchange for silver dollars and for silver certificates of denominations above five dollars;

Sixth. Pay out gold coin in exchange for silver dollars;

Seventh. Pay out silver dollars held in the division of issue and redemption aforesaid, and not covered by outstanding silver certificates, in exchange for gold coin, United States notes, or Treasury notes;

Eighth. Pay out United States notes or Treasury notes, not subject to immediate cancellation, in exchange for gold coin;

Ninth. Pay out gold coin in exchange for subsidiary and minor coins presented in sums of twenty dollars or multiples thereof, and pay out subsidiary and minor coins in sums of twenty dollars or multiples thereof in exchange for any lawful money;

Tenth. Pay out in redemption of national-bank notes the moneys in the division available for that purpose.

Gold certificates and currency certificates retired and canceled.

SEC. 7. That gold certificates and currency certificates shall, whenever presented and paid or received in the Treasury, be retired and canceled. All provisions of law authorizing the issue or reissue of gold certificates or currency certificates are hereby repealed.

Exchange of gold coin and United States notes and Treasury notes.

SEC. 8. That when the division of issue and redemption shall have paid out gold coin in exchange for United States notes and Treasury notes presented for payment, it shall from time to time cancel such amounts of notes so paid as shall not exceed the amount of national currency notes issued subsequent to the taking effect of this act.

United States notes may be transferred for cancellation.

SEC. 9. That the Secretary of the Treasury may, in his discretion, from any funds in the general Treasury not set apart under section four of this act or otherwise appropriated, transfer to the division of issue and redemption any United States notes or Treasury notes which, on such transfer, could then lawfully be canceled under the provisions of this act if they had been redeemed on presentation; and when so transferred the same shall be canceled. And the Secretary of the Treasury, whenever there may be United States notes or Treasury notes in the general Treasury which are not available as surplus revenue, and which upon transfer to the division of issue and redemption could then lawfully be canceled under the provisions of this act, may exchange such notes with the division of issue and redemption for gold coin, and such notes shall thereupon be canceled.

United States notes redeemed in gold not to be paid out except for gold or United States bonds.

SEC. 10. That United States notes or Treasury notes once redeemed shall not be paid out again except for gold coin, unless there shall be an accumulation of such notes in the division of issue and redemption which can not then be canceled under the provisions of this act, in which case the Secretary of the Treasury shall have authority, if in his judgment that course is necessary for the public welfare, to invest the same, or any portion thereof, in bonds of the United States for the benefit of the gold reserve in the division of issue and redemption, such bonds to be held in the aforesaid division, subject to sale at the discretion of the Secretary of the Treasury for the benefit of the said reserve in the said division of issue and redemption, and not for any other purpose.

SEC. 11. That no United States note or Treasury note issued under the act of July fourteenth, eighteen hundred and ninety, of a denomination less than ten dollars shall hereafter be issued, and silver certificates shall hereafter be issued or paid out only in denominations of one dollar, two dollars, and five dollars against silver dollars deposited in the division of issue and redemption, or in exchange for silver certificates of denominations exceeding five dollars.

No United States notes less than ten dollars. Silver certificates, one dollar, two dollars, five dollars.

SEC. 12. That the circulating notes provided for in this act shall consist of two classes, namely, national reserve notes and national currency notes. The words "national reserve notes," when used in this act, shall be understood to mean notes issued to a national banking association in exchange for United States notes, and for whose current redemption the banking association receiving the same shall be made immediately liable, and whose ultimate payment shall be by the Government of the United States.

Two classes of notes defined.

That the words "national currency notes," when used in this act, shall be understood to mean notes issued upon the assets of a national banking association, whether secured by deposited United States bonds or otherwise, and constituting a direct and ultimate liability of the said banking association, as provided in this act.

SEC. 13. That any national banking association, on complying with the provisions of this act, shall, if its capital be wholly paid up and unimpaired, be entitled to receive from the Comptroller of the Currency national currency notes of different denominations hereinafter provided (none, however, being less than ten dollars) in blank, registered and countersigned, as provided by law, to the amounts and in the manner following, and on the following terms and conditions, but in no case exceeding the amount of such paid-up and unimpaired capital:

Bank notes not to exceed capital of bank.

Subdivision A. That upon deposits by national banking associations of United States bonds, bearing interest, as provided by law under the provisions of sections fifty-one hundred and fifty-nine and fifty-one hundred and sixty of the Revised Statutes, such associations shall be entitled to receive from the Comptroller of the Currency national currency notes of different denominations in blank, as provided by this act, equal in amount to the par value of the bonds so deposited, and national banking associations now having bonds on deposit for the security of circulating notes less in amount than the par value of the bonds, or which may hereafter have such bonds on deposit, shall be entitled to receive, immediately upon their reorganization under this act, national currency notes to an amount which will increase to the par value of the bonds the aggregate amount of circulating notes held by such associations in consequence of the deposit of such bonds; and when from time to time the circulating notes of any association issued prior to the passage of this act are received by the division of issue and redemption, and it shall be the duty of every national banking association to present them to said division as rapidly as possible, they shall be canceled, and said association shall be entitled to receive in lieu thereof an

Bond-based notes.

equivalent amount of the national currency notes provided for in this act: *Provided*, That nothing herein contained shall be construed to modify or repeal the provisions of sections fifty-one hundred and sixty-seven and fifty-one hundred and seventy-one of the Revised Statutes, authorizing the Comptroller of the Currency to require additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which said bonds may be deposited as security.

Reserve notes  
and currency  
notes.

Subdivision B. That any national banking association may deposit with the Treasurer of the United States, under such regulations as the Secretary of the Treasury may approve, United States notes, and shall then be entitled to receive in exchange therefor from the Comptroller of the Currency an equal amount of national reserve notes, of the kind and denominations described in section fourteen of this act, and to receive and issue in addition thereto an amount of national currency notes equal to the amount of national reserve notes received as aforesaid: *Provided, however*, That when any national banking association shall have taken out an amount of national reserve notes equal to thirty-five per centum of its capital, it shall not be required to take out any further amount of national reserve notes in order to be entitled to receive and issue national currency notes to the full amount of its paid up and unimpaired capital as authorized in this section.

That from and after three years after the passage of this act no national banking association shall be granted an extension or renewal of its charter, and from and after the passage of this act no national banking association shall be granted a certificate of organization, unless such association shall take out in the manner prescribed herein an amount of national reserve notes equal to at least twenty-five per centum of its capital, subject to the exemptions provided in section eighteen of this act.

United States notes received into the division of issue and redemption in exchange for national reserve notes shall be canceled as received.

National cur-  
rency notes para-  
mount lien on all  
assets.

Subdivision C. That the national currency notes constitute a paramount lien upon the bonds deposited to secure circulation and upon all the other assets of the association issuing such notes.

Description of  
notes.

SEC. 14. That in order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom and numbered such quantity of circulating notes in blank of the denominations of ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required to supply the associations entitled to receive the same.

Each national currency note shall express upon its face the promise of the association receiving and issuing the



same to pay the specified amount on demand, attested by the signatures of the president or vice-president and the cashier of such association; it shall also bear upon its face the statement that it is issued in accordance with the provisions of this act, which statement shall be attested by the written or engraved signature of the Comptroller of the Currency, and shall bear such devices and other statements and be in such form as the Secretary of the Treasury shall, by regulation, direct.

Each national reserve note shall be in the same form and contain the same statements as the present United States legal-tender notes, and in addition thereto shall express upon its back or reverse side the promise of the national banking association receiving the same to pay on demand the sum specified on its face, which statement shall be attested by the signatures of the president or vice-president and cashier of such association.

No circulating notes shall be issued to any national banking association other than those described in this Act.

SEC. 15. That national reserve notes issued to any national banking association, as defined in this Act, shall be a full legal tender at their face value for all debts, public and private, except duties on imports and interest on the public debt, and shall be available for use in the reserves of any national banking association; but no national banking association shall count or report any of its own notes as a part of its cash or cash assets. Reserve notes  
a legal tender.

SEC. 16. That each year after the expiration of one year from the passage of this act the Secretary of the Treasury may, from time to time, and at such times as to him shall seem best, and under regulations to be prescribed by him, decrease the deposits of the United States bonds required to be deposited under Subdivision A of section thirteen of this act by one-fourth of the amount of the bonds required to be deposited under this act as a basis of circulation, and from and after the expiration of five years from the passage of this act no such bond deposits shall be required; and no further deposit of bonds shall be required than is prescribed in this act; and any national banking association having at any time bonds of the United States deposited with the Treasurer in excess of the amount required by law to be at such time deposited may withdraw the whole or any part of such excess; *Provided, however,* That such decrease in the amount of bonds required to be deposited shall not of itself in any way interfere with the amount of circulating notes previously issued by said banking association: *And provided further,* That nothing herein contained shall be construed to authorize or permit the withdrawal of bonds required to be deposited under the provisions of section fifty-one hundred and fifty-three of the Revised Statutes of the United States as security for the safe-keeping and prompt payment of the public moneys deposited with any national banking associations. Reduction of  
bond deposits re-  
quired.

SEC. 17. That any national banking association organized within five years after the passage of this Act shall Bonds re-  
quired during  
five years.

be required, preliminary to commencing business, to deposit only such amount of United States bonds as it would be required to have on deposit if it had been organized immediately after the passage of this Act.

Currency notes  
finally without  
taking out re-  
serve notes.

SEC. 18. That after so many United States notes have been canceled and destroyed, as herein provided, that in the judgment of the Secretary of the Treasury no more of such notes are available for use as a basis for the issue of circulating notes, the deposit of such United States notes as provided in section thirteen of this Act shall no longer be required, but Treasury notes issued under the Act of July fourteenth, eighteen hundred and ninety, may then be accepted in lieu of United States notes; and when in the judgment of the Secretary of the Treasury no more of such Treasury notes are available for use as a basis for the issue of circulating notes, the deposit of such notes shall no longer be required, and national banking associations shall then be entitled to receive national currency notes to the amount which they would have been entitled to receive if such United States notes or Treasury notes were available for such use.

Reduction of  
circulation.

SEC. 19. That any national banking association desiring to reduce the volume of its national currency notes may do so by redeeming the same and sending such redeemed notes to the Comptroller of the Currency, with the request that they be canceled; and the Comptroller of the Currency may carry to the credit of any national banking association, or reimburse to it, the excess of either the bank-note redemption fund or the bank-note guaranty fund, or both, above the amount required by this act to be held against outstanding circulation.

Bank-note  
guaranty fund.

SEC. 20. That every national banking association shall at all times keep and have on deposit with the division of issue and redemption for the purpose hereinafter specified a sum in gold coin equal to five per centum of its outstanding circulation of national currency notes not secured by United States bonds. The amount so kept on deposit shall constitute a fund to be known as the "bank-note guaranty fund," which fund shall be held for the following purpose, and for no other, namely:

Whenever the Comptroller of the Currency shall have become satisfied by the protest or the waiver and admission specified in section fifty-two hundred and twenty-six, or by the report provided for in section fifty-two hundred and twenty-seven of the Revised Statutes of the United States, that any association has refused to pay any of its circulating notes on demand, he shall direct the redemption of its national currency notes from the bank-note guaranty fund aforesaid, and the redemption in gold coin of the United States of the national reserve notes issued to it from the reserve fund in the division of issue and redemption, and such notes shall thereupon be redeemed. After the failure of any national banking association to redeem any of said notes shall have been thus ascertained, the bonds deposited by it with the Treasurer of the United States shall be sold as provided by law, and the proceeds

of such sale shall be paid into the bank-note guaranty fund.

The Comptroller of the Currency shall forthwith collect, for the benefit of said bank-note guaranty fund, from the assets of the bank and from the stockholders thereof, according to their liability as declared by this act, such sum as, with the bank's balance in the bank-note guaranty fund as aforesaid, shall equal the amount of its national currency notes outstanding. And for this purpose the United States shall, on behalf of the bank-note guaranty fund, have a paramount lien upon all the assets of the association; and such fund shall be made good out of such assets in preference to any and all other claims whatsoever, except the necessary costs and expenses of administering the same.

All national reserve notes so redeemed shall be canceled and destroyed, and all national currency notes so redeemed shall be held by the Treasury Department in the division of issue and redemption until the conclusion of the proceedings of liquidation of said bank and shall thereupon be canceled and destroyed.

The provisions of sections fifty-two hundred and twenty-six, fifty-two hundred and twenty-seven, fifty-two hundred and twenty-eight, fifty-two hundred and twenty-nine, fifty-two hundred and thirty-four, fifty-two hundred and thirty-seven of the Revised Statutes shall be applicable in the case of the failure of any national banking association to redeem in compliance with law the national reserve notes issued to it.

SEC. 21. That whenever the Comptroller of the Currency shall ascertain what deficiency, if any, exists between the aggregate collection for the benefit of the bank-note guaranty fund in the case of any failed bank and the amount of its national currency notes redeemed and to be redeemed from the said fund, he shall assess such deficiency upon all the national banks in proportion to their national currency notes not secured by United States bonds outstanding at the time of the failure of such bank, said assessment, however, not to exceed in any one year one per centum of the amount of such circulation of the several banking associations, respectively.

Assessment in case of deficiency in bank-note guaranty fund.

SEC. 22. That the Secretary of the Treasury be, and he is hereby, authorized in his discretion to cause to be invested in bonds of the United States any portion of the guaranty fund hereinbefore provided for; and such bonds shall be held and disposed of for the benefit of such fund.

Guaranty fund may be invested in United States bonds.

SEC. 23. That all interest accruing from the investment of any portion of the aforesaid guaranty fund, and all funds received in payment of the duties on circulation provided for in this act, shall be held in the division of issue and redemption in gold coin or in United States bonds, in the discretion of the Secretary of the Treasury, and shall be a fund supplementary to the guaranty fund, to be used only in case said guaranty fund shall ever become insufficient to redeem any national currency notes issued under the provisions of this act; and it shall not be taken into account in estimating the amount of assessments necessary to

Interest to constitute fund supplementary to bank-note guaranty fund.

replenish said guaranty fund or in repayment to banks of their contributions to the guaranty fund.

**Redemption fund.**

SEC. 24. That the fund of five per centum of outstanding circulating notes required to be kept on deposit by every national banking association for the current redemption of the circulating notes of such association shall be required to be equal to five per centum of all the national reserve notes issued to it and of its national currency notes outstanding, and shall be in gold coin of the United States; and the Comptroller of the Currency shall, with the approval of the Secretary of the Treasury, have authority to provide for the redemption of said notes at any or all of the sub-treasuries of the United States, and said notes shall be paid in gold coin of the United States.

**Liability of United States for redemption.**

SEC. 25. That so much of section three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as reads "And when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption in sums of one thousand dollars, or any multiple thereof, to the Treasurer of the United States, the same shall be redeemed in United States notes," be amended to read: "And when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption in sums of one thousand dollars, or any multiple thereof, at the Treasury, or at such subtreasuries or other redemption agencies as may be designated by the Comptroller of the Currency, the same shall be redeemed in gold coin of the United States; and authority is hereby given to the Comptroller, with the approval of the Secretary of the Treasury, to establish such other redemption agencies. But nothing in this act contained shall be construed to impose upon the United States any liability for the redemption of the notes of any national banking association, other than the national reserve notes, beyond the proper application of the redemption and guaranty funds deposited with the division of issue and redemption and the enforcement of the remedies by this act provided."

**One-fourth of reserves in gold coin.**

SEC. 26. That at least one-fourth of the reserve of twenty-five per centum of the aggregate amount of its deposits required under the provisions of existing law to be held by every national banking association in either of the cities designated as reserve or central reserve cities, and at least one-fourth of the reserve of fifteen per centum of the aggregate amount of its deposits required to be held by every other association, shall consist of gold coin of the United States actually held in the vaults of such bank: *Provided*, That nothing in this section, except as expressly provided, shall be construed to alter or in any way affect the provisions of existing law governing the maintenance of reserves.

No contribution to the bank-note guaranty fund provided for in section twenty of this act shall be counted by any national banking association as a part of its lawful reserve.

SEC. 27. That when the amount of the national currency notes of any national banking association issued under this act shall exceed sixty per centum of its capital, every such national banking association shall pay, on or before the last day of every month, to the division of issue and redemption a duty imposed at the rate of two per centum per annum upon the average daily amount of said notes outstanding in excess of sixty per centum of its capital stock and not in excess of eighty per centum of such capital stock, and a duty imposed at the rate of six per centum per annum upon the average daily amount of such notes outstanding in excess of eighty per centum of its capital stock: *Provided*, That for the purpose of computing the circulation subject to the tax herein provided for, all national currency notes, whether secured by United States bonds or not, shall be counted; but national currency notes secured by deposit of United States bonds shall not in any case be subject to the duty herein provided.

Duties on circulation.

Circulating notes of any national banking association shall be deemed and held to be outstanding whenever they shall have been supplied by the Comptroller of the Currency to such associations in blank, countersigned according to law, and shall not have been returned to the Comptroller for cancellation or covered by an equal amount of lawful money deposited with the Assistant Treasurer in charge of the division of issue and redemption for the retirement of such notes.

SEC. 28. That in order to enable the said Assistant Treasurer to assess the duties imposed by the preceding section, the Comptroller of the Currency shall, within five days from the first day of each calendar month, make a return to the said Assistant Treasurer of the United States, in such form as he may prescribe, of the average daily amount of national currency notes of each national banking association outstanding during the calendar month next preceding; and every national banking association shall be notified by said Assistant Treasurer of the United States, within ten days from the first day of each calendar month, of the amount of the duties upon its national currency notes due from it to the United States under this act; and every such association shall, before the last day of such calendar month, pay to the division of issue and redemption, in lawful money, the full amount of such tax; and whenever any association fails to pay the duties imposed by this act the sums due may be collected in the manner provided for the collection of taxes, or said Assistant Treasurer may reserve the amount so due out of the interest as it may become due on any bonds deposited with him by such defaulting association; and while such default continues no further amount of circulating notes shall be issued to such defaulting association.

Reports on circulation and collection of taxes.

SEC. 29. That every national banking association shall pay into the division of issue and redemption each half year, in the months of January and July, on or before the thirtieth day thereof, a duty of one-tenth of one per centum upon the value of its franchise, as measured by the aggre-

Duties on franchise.

gate amount of its capital, surplus, and undivided profits upon the last day of the calendar month next preceding. Sections fifty-two hundred and fourteen, fifty-two hundred and fifteen, fifty-two hundred and sixteen, and fifty-two hundred and seventeen of the Revised Statutes of the United States are hereby repealed. But nothing in this section contained shall be so construed as in any manner to release any national banking association from any liability for taxes or penalties incurred prior to the passage of this act.

Banks going in  
to liquidation.

SEC. 30. That every bank going into liquidation, voluntary or involuntary, shall, prior to the payment of its creditors other than noteholders, and the distribution of any of its assets to its shareholders, deposit with the Assistant Treasurer in charge of the division of issue and redemption lawful money to such an amount that its total deposits of lawful money shall equal the full amount of its outstanding national currency notes and its assessments provided for by this act.

Capital re-  
quired.

SEC. 31. That section fifty-one hundred and thirty-eight of the Revised Statutes of the United States be amended to read as follows: "No association shall be organized under this title in a city the population of which exceeds fifty thousand inhabitants with a less capital than two hundred thousand dollars. No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed fifteen thousand inhabitants, and that banks with a capital of not less than twenty-five thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants."

Branch banks  
authorized.

SEC. 32. That it shall be lawful for any national banking association to establish branches, under such rules and regulations as may be prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury.

Bank notes  
not payable by  
United States.

SEC. 33. That so much of section fifty-one hundred and eighty-two of the Revised Statutes of the United States as provides that the circulating notes of national banking associations shall be received at par "for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt and in redemption of the national currency," be, and the same is hereby, repealed.

Comptroller of  
the Currency.

SEC. 34. That section three hundred and twenty-four of the Revised Statutes of the United States be amended so as to read as follows: "There shall be in the Department of the Treasury a bureau charged, except as in this act otherwise provided, with the execution of all laws passed by Congress relating to the issue and regulation of currency issued by national banking associations, the chief officer of which bureau shall be called the Comptroller of the Cur-

rency, and he shall perform his duties under the general direction of the Secretary of the Treasury."

SEC. 35. That the examination of the affairs of every national banking association authorized by existing laws shall take place at least twice in each calendar year, and as much oftener as the Comptroller of the Currency shall consider necessary in order to furnish a full and complete knowledge of its condition; and the person making such examination shall have power to call together a quorum of the directors of such association, who shall, under oath, state to such examiner the character and circumstances of such of its loans or discounts as he may designate; and from and after the passage of this act all bank examiners shall receive fixed salaries, the amount whereof shall be determined by the Secretary of the Treasury; but the expense of the examination herein provided for shall be assessed by the Comptroller of the Currency upon the associations examined. The Comptroller of the Currency shall so arrange the duties of national bank examiners that no two successive examinations of any association shall be made by the same examiner.

Examination  
of banks.

SEC. 36. That no association shall hereafter make any loan or grant any gratuity to any examiner of such association. Any association offending against this provision shall be deemed guilty of a misdemeanor, and shall be fined not more than one thousand dollars and a further sum equal to the money so loaned or gratuity so given; and the officer or officers of such association who shall make such loan or grant such gratuity shall be likewise deemed guilty of a misdemeanor, and shall be fined not to exceed five hundred dollars. And any examiner accepting a loan or gratuity from any association examined by him shall be deemed guilty of a misdemeanor, and shall be fined not more than five hundred dollars and a further sum equal to the money so loaned or gratuity given, and shall be forthwith dismissed from the service.

Loans or gratu-  
ities to examiners  
forbidden.

SEC. 37. That the Comptroller of the Currency, in addition to the reports provided for by existing laws, shall have authority to call for such other reports, regular or special, as he may deem advisable; and such reports shall be rendered in such form as the Comptroller may prescribe, and each association making such report shall cause a copy thereof to be conspicuously displayed in a public place in its banking house for the period of thirty days from the date of such report; but nothing herein contained shall be construed to require the publication of such additional reports by each association in the manner prescribed for other reports now rendered.

Extra exami-  
nations provided  
for.

SEC. 38. That any national banking association heretofore organized may, at any time within one year from the passage of this act, and with the approval of the Comptroller of the Currency, be granted, as herein provided, all the rights and be subject to all the liabilities of national banking associations organized hereunder: *Provided*, That such action on the part of such associations shall be authorized by the consent in writing of shareholders owning not

One year for re-  
organization.

less than two-thirds of the capital stock of the association. Any national banking association now organized which shall not within one year after the passage of this act become a national banking association under the provisions hereinbefore stated, and which shall not place in the hands of the Treasurer of the United States the sums hereinbefore provided for the redemption and guaranty of its circulating notes, or which shall fail to comply with any other provision of this act, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred: *Provided further*, That compliance with the provisions of this section by any national banking association shall not be construed as abrogating or changing the term of the existing charter of the bank in so far as to require compliance with the provisions for the organization of new banks.

State banks  
may reorganize  
under this act.

SEC. 39. That any bank or banking association incorporated by special law of any State, or organized under the general laws of any State, and having a paid-up and unimpaired capital sufficient to entitle it to become a national banking association under the provisions of this act, may, by the consent in writing of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, and with the approval of the Comptroller of the Currency, become a national bank under this system, under its former name or by any name approved by the Comptroller. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of law. When the Comptroller of the Currency has given to any such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations in all respects as shall have been prescribed for associations originally organized as national banking associations under this act.

Modification of  
act for extension  
of corporate ex-  
istence.

SEC. 40. That so much of section nine of an act entitled "An act to enable national banking associations to extend their corporate existence, and for other purposes," approved July twelfth, eighteen hundred and eighty-two, as reads as follows, "And no national bank which makes any deposit of lawful money in order to withdraw its circulating notes shall be entitled to receive any increase of its circulation for the period of six months from the time it made such deposit of lawful money for the purpose aforesaid: *Provided*, That not more than three millions of dollars of lawful money shall be deposited during any calendar month for this purpose: *And provided*, That the provisions of this section shall not apply to bonds called for redemption by the Secretary of the Treasury, nor to the withdrawal of circulating notes in consequence thereof," be, and the same is hereby, repealed; and the Comptroller of the Currency is hereby authorized and directed to have pre-



pared and keep on hand, ready for delivery on application, blank notes to such an amount as he may deem advisable for each national banking association having circulation.

SEC. 41. That nothing contained in this act shall be construed to alter or affect any vested rights of property or contract, or any penalties incurred before the taking effect of this act, or any part of it. Vested rights preserved.

SEC. 42. That all provisions of law inconsistent with or superseded by any of the provisions of this act, be, and the same are hereby, repealed. General repeal.

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## **REPORT OF THE SPECIAL SUBCOMMITTEE**

**ON THE BILL DRAFTED BY IT, ENTITLED**

**A BILL TO PROVIDE FOR STRENGTHENING THE PUBLIC CREDIT,  
FOR THE RELIEF OF THE UNITED STATES TREASURY, AND FOR  
THE AMENDMENT OF THE LAWS RELATING TO NATIONAL  
BANKING ASSOCIATIONS.**

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The purpose of this bill, as declared by its title, is the strengthening of the public credit, the relief of the United States Treasury, and the amendment of the laws relating to national banking. These objects, we believe, will be best attained by relieving the Treasury Department of the current redemption of demand notes, casting that burden upon the national banks, and permitting the banks to provide the elastic element of the paper currency of the country. These results are sought in the bill herewith reported by the following provisions:

### **THE GENERAL SCOPE OF THE BILL.**

1. A division of issue and redemption is established in the Treasury, for which the Secretary of the Treasury is authorized to set aside the general cash balance in excess of \$50,000,000. This excess on March 17, 1898, was \$176,139,532. United States notes received by this division for redemption in gold are to be canceled and retired in proportion as certain substitute currency is issued. No note redeemed in gold is to be again paid out except under exceptional conditions, which are carefully guarded.

2. National banks are required to assume the current redemption of United States demand notes in order to obtain circulation based upon their commercial assets. A new class of notes, called "national reserve notes," is to be issued in lieu of legal-tender notes deposited by the banks with the Treasury, and these reserve notes are to be redeemed upon demand by the banks out of the redemption fund which they are required to maintain in gold. These reserve notes are not treated in any respect as bank notes, because the banks are not liable for their ultimate redemption.

3. The basis of national-bank note circulation will eventually be the commercial assets of the banks. This result will be reached, however, only after a series of years by a conservative method. National banks will continue to be required during one year after the passage of this bill to maintain the same amount of United States bonds as security for circulation which is required by existing law, but they will be permitted to issue notes to the face value of these bonds. This bond deposit may be reduced by one-fourth annually, beginning one year after the passage of the act.

4. National banks are to be permitted to issue "national currency notes" upon their commercial assets to the amount of the reserve notes

issued to them in return for deposits of United States notes. The purpose of this provision is to induce the conversion of United States notes into reserve notes, as well as to limit the issues of currency upon commercial assets.

5. Treasury notes issued under the act of July 14, 1890, are to be dealt with eventually upon the same basis as United States notes.

6. A tax of 2 per cent is levied upon national currency notes issued in excess of 60 per cent of the capital of any national bank. A tax of 6 per cent is levied upon circulation of the same character in excess of 80 per cent of the capital.

7. The national currency notes based upon commercial assets are to be secured by a bank-note guaranty fund, made up by the contribution in gold coin of 5 per cent of the entire circulation of the banks. This fund may be replenished by calls upon the banks, if reduced by the redemption of the notes of failed banks; but no bank shall be required to pay more than 1 per cent in addition to its original deposit of 5 per cent in any one year. The currency notes are also secured by a first lien upon the bonds on deposit as security and upon all the other assets of the bank.

8. The national reserve notes will continue to be legal tender until received into the Treasury from failed and liquidating banks, when liability for them will be assumed by the Government and they will be redeemed and canceled. Provision is made that they shall cease to be required as a basis of circulation when the Secretary of the Treasury is satisfied that there is no longer a sufficient amount available to meet the demands for new banks and increased circulation.

9. Standard silver dollars are to be redeemable in gold, but silver certificates are redeemable only in standard silver dollars. The parity of silver with gold is secured by a gold redemption fund, deposited in the division of issue and redemption, equal to 5 per cent of the amount of silver which has been coined.

10. Silver certificates are hereafter to be issued only in denominations of \$1, \$2, and \$5. No United States notes or bank notes are to be issued in denominations below \$10.

11. National banks are required to pay a tax of one-eighth of 1 per cent semiannually upon their capital, surplus, and undivided profits.

12. National banks are permitted to establish branches, under regulations to be prescribed by the Secretary of the Treasury.

There are other provisions of the bill changing the existing national banking law in minor particulars, but they are nearly all directed to bringing existing law into harmony with the plan just outlined for the protection of the Treasury and the adoption of a more scientific banking currency. In view of the importance of these objects, your committee have thought proper to limit their discussion substantially to features enumerated above.

#### NECESSITY FOR PROTECTING THE TREASURY.

The necessity of so protecting the Treasury as to strengthen the public credit ought not to be a subject of dispute among those familiar with the events of the last five years. The essential purpose of the bill in this respect is to relieve the Treasury from the burden of the constant redemption of Government paper money, and to obviate the necessity of selling interest-bearing bonds running for a long term in order to obtain gold for the continued and repeated redemption of the notes. It does not matter what view is taken of the responsibility for

the condition in which the Treasury has been found on several occasions during the last five years, which has resulted in the issue of \$262,000,000 in long-term interest bearing bonds. If any political organization or any error of administration at the Treasury Department is responsible for these events, it only emphasizes the necessity of placing our currency system beyond the reach of political accidents. Our financial system should be such that no Administration, without radical change of law, should have the power to involve the commercial business of the country in disaster because the fiscal and banking operations of the Treasury might not be wisely conducted. This is one of the essential purposes of the bill reported by your committee—to separate the operations of the fiscal service of the Government from the operations of commercial banking.

There can be no question of the benefits to the Treasury and to the public credit in relieving the Treasury of the constant necessity of redeeming demand obligations. Such objections as have been made to methods heretofore proposed for terminating these conditions are, we believe, obviated by the plan herewith reported. The details and operation of that plan will be discussed after a general definition of the purposes of the proposed bill. Your committee propose to relieve the Treasury absolutely of the obligation of finding gold for the redemption of a very large proportion of the legal-tender notes, and they believe that the small amount of such notes left outstanding will be given such enhanced credit by the operation of their plan that they will never again become a menace to the public credit and never bring in question the ability of the United States to fulfill the mandate of the act of November 1, 1893—"the maintenance of the parity in value of the coins of the two metals, and the equal power of every dollar at all times in the markets and in the payment of debts."

#### EFFECTS OF DOUBT ABOUT THE PARITY.

The importance of maintaining unquestioned and unimpaired the parity of all our forms of money is such that it involves almost every transaction of life and peculiarly the volume of business, the safety of investments, the value of pensions and insurance policies, and the legitimate profits of agricultural, industrial, and mercantile enterprises. From 1893 to 1896, the United States, by heroic efforts, succeeded in preventing any depreciation of their paper currency, but the mere suspicion of the possibility that such a depreciation might occur was among the potent causes of the shrinkage of values and the paralysis of industry. Some conception of the effects of this uncertainty may be formed from the fact that the transactions of the New York clearing house shrunk from \$34,421,380,870 for the year ending October 1, 1893, to \$24,230,145,368 for the year ending October 1, 1894. The clearings throughout the leading cities of the country showed a shrinkage in the same period from \$58,880,682,455 to \$45,017,960,736. Figures like these measure, in some slight degree, the reduction in the volume of business, in the earnings of the people and in the employment for labor. There can be no doubt also that the withdrawal of foreign capital, as the result of like uncertainty regarding the maintenance of the parity of all our forms of money, added to the tendency to panic by the persistent withdrawal of gold, and diminished by the amount withdrawn the productive resources of the country.

The cost to the laboring and industrial interests of the country was many times the amount which could possibly have been saved to the

Treasury by the issue of a noninterest-bearing for an interest-bearing security. Even under the latter head the maintenance of a mass of Government paper at parity with gold by direct gold redemptions at the Treasury Department required, prior to the resumption of specie payments in 1879, the issue of United States bonds to the amount of \$95,500,000 and the issue in 1894, 1895, and 1896 of additional bonds to the amount of \$262,315,400. These several issues of interest-bearing bonds, amounting to more than \$11,000,000 in excess of the whole volume of United States notes now outstanding, indicates in some measure the lack of economy, even from the narrow standpoint of the operations of the Treasury, in the maintenance of Government paper money unprotected by any of the usual resources of a bank of issue, discount, and deposit. The Treasury, moreover, loses constantly the interest on the entire gold reserve held for the redemption of United States notes. This reserve was officially stated on March 17, 1898, at \$170,432,007, so that of the entire amount of United States notes outstanding, amounting to \$346,681,016, not much more than half possessed in any true sense the character of a noninterest-bearing debt.

#### THE DISADVANTAGES OF GOVERNMENT BANKING.

The issue of paper money, redeemable directly by the Treasury, is a system which is not approved by the experience of any civilized State. It is not necessary for your committee to refer to the notorious incidents of the French assignats, nor the discredited issues of our own country during the war of the Revolution. Cases less conspicuous are those of the Austro-Hungarian monarchy, which resorted to this method of finance in 1847 and gave forced legal-tender character to its treasury issues. The result was the perpetuation of a premium upon gold, which has not yet been terminated. Energetic steps were taken in 1892 to bring this condition to a close and to leave to the Austro-Hungarian bank the management of the paper currency. One of the first of these measures, recommended by all the leading financiers and political economists of the Empire, was the reduction and cancellation of the Government legal-tender notes, and this process has been carried on until the premium upon gold has been reduced to a minimum, the Austro-Hungarian Bank has accumulated a large reserve, and the resumption of specie payments is upon the eve of accomplishment. A like course was taken by the German Empire when the currency system was unified in 1875, and bonds were issued to take up and cancel the outstanding notes of the various German States. The Government of Russia, which has just resumed gold payments through the Imperial Bank, always issued its notes through the bank, and was thereby able, in spite of some abuses of this power, to exercise banking methods in controlling discount and exchange. The foreign exchanges were thus kept at a fixed point for several years, and the Bank of Russia has been enabled to resume gold payments with an available gold fund of \$600,000,000. The experience of the South American countries, if it should be presented by your committee in detail, would afford even more striking proof of the failure of governments to maintain their legal-tender paper currency at parity with the metallic standard.

The history of the world hardly affords an instance of the successful maintenance of Government paper at parity with gold. The United States, from 1879 to 1893, afforded the most successful illustration of this experiment, but this period was one of prosperity seldom impaired

and of a rigid limitation of the note issues. When this limitation was removed by the act of July 14, 1890, providing for the issue of additional legal-tender Government notes for the purchase of silver bullion, the usual effects of a government paper currency soon reappeared, gold was largely expelled from circulation, doubt and distrust seized the markets, and the great loss inflicted upon the exchanges and upon the earnings of capital and labor foreshadowed in some slight degree the disaster which would have ensued by the actual suspension of the redemption of Government notes in gold.

#### THE BENEFITS OF A BANKING CURRENCY.

The essential objection to a paper currency issued by the Government brings us to the fundamental reasons which justify those portions of the bill reported relating to the banking currency of the country. A currency issued by commercial banks has the advantage that it is responsive in quantity to the demands of business. No such condition can exist with a Government paper currency. Such contraction and expansion as have occurred during recent years have been directly counter to the current of business necessity, as the result of the locking up of an excessive surplus when active business increased the revenues of the Government, and the pumping into the circulation of an excess of money when dull business created small revenues and a persistent Treasury deficit. The operation of a Government paper currency could never be automatic, like that of a bank currency. It must be subject either to the arbitrary will of an individual in the Treasury Department or to the accidents of the public revenue, often resulting in a redundant and excessive circulation in times of business depression, causing the expulsion of gold from the country and intensifying the conditions of panic arising from other causes. These facts are well understood by economists and have condemned government paper currency in nearly every enlightened country of the world. They have, moreover, justified the issue of currency through the banks, because such issues are governed by commercial conditions. By the law of self-preservation and by the enlightened self-interest which governs commercial operations, banks authorized to issue notes upon commercial assets diminish their issues when redundancy in the circulation is indicated by frequent demands for gold redemption and expand their issues to meet the needs of business when large gold imports indicate that the means of circulation are deficient.

A banking currency is not only sound in theory, but it is safe in practice. Whatever disasters have attended excessive issues of bank notes, they are not comparable in their effects to the disasters attending the issues of Government paper money, because bank-note issues can not change the standard of value nor the obligation of contracts. The issues of banks are not usually legal tender in payment of debt, and when they are made by law a legal tender it is almost universally upon the condition that they shall be redeemed upon demand in the metallic standard. The removal of the currency from the accidents of politics, by taking it out of the direct management of the Treasury Department, insures the maintenance of the parity of paper and metallic money so long as the maintenance of such parity is possible under any conditions. Conditions sometimes arise which compel specie suspension, but the fact that the banks are responsive to law and are the creatures of law insures the requirement that they shall resume specie payments at the earliest practicable moment. A government, on the other hand, is sovereign and acts within its own dis-

cretion in the payment of its debts. The people of the United States can be trusted not to be lenient with banks of issue in permitting them to suspend the redemption of their notes in specie beyond the time when such suspension may be absolutely required by political or economic conditions. No argument is conceivable which would appeal to the masses of the voters in favor of permitting the banks of the country to continue to float their noninterest-bearing notes at a discount in coin for any such period of seventeen years as the Government, in the exercise of its sovereignty, saw fit to take between 1862 and 1879.

#### THE ADVANTAGES OF EXTENDING CREDIT.

More important in some respects to a country like the United States is the power for the extension of credit by means of bank-note issues. A bank note is essentially the same in character as the note of an individual or the check of a bank. It comes even closer in character to a certified check. It is substantially the certified check of the bank, printed and issued in such a form as to be conveniently transferable from one holder to another without indorsement. It is a well-reasoned theory of economic students that there is no more justification for imposing an arbitrary limit upon bank-note issues than upon the issue of personal obligations, like promissory notes and checks. The reason which justifies regulation of bank-note issues is that of the convenience of the holder, who should not be compelled to make personal research as to the responsibility of the issuer of each note and distinguish between the notes which he receives. But such regulation should not be of a character to hamper industry or deprive commerce of its legitimate tools of exchange. It would be immaterial in a community closely populated, with banks of deposit within easy reach, and where every member was accustomed to deposit books and checks, whether any currency were in circulation beyond the smallest amount for change. The necessity for a banking currency is derived from the conditions of a thinly settled community where the substitutes for bank notes, checks, and deposit books are not within easy reach and in general use.

It is the belief of your committee, sustained by a great volume of expert evidence, that the present national banking system, with the issues of Government paper from the Treasury at Washington, does not meet the requirements of the country in respect to an elastic and sufficient circulating medium. The issue of a banking currency based upon commercial assets would, in our opinion, permit the extension of banking into communities where such facilities are now lacking, and would tend at once to afford a convenient medium of exchange, to extend credit where it can not now be readily obtained, and, by competition among the banks and the increased opportunities for making loans, reduce the rate of interest in a degree which would be obvious and advantageous to the community. Such an extension of the means of credit is within the legitimate province of banking, and can not be considered as involving undue inflation, when the banks are held to the maintenance of the parity of their notes with the metallic standard, any more than issues of promissory notes and checks can be considered dangerous or subjected to any other legal regulation than the requirement of payment in the standard at maturity.

#### THE NECESSITY OF CAUTION IN MAKING CHANGES.

While the principles thus set forth are the fundamental principles which should govern the issue of currency, your committee have been

conscious of the fact that the United States have been long accustomed to a different system of currency and that radical and rapid changes might induce anxiety and disturbance. We have therefore proceeded with an abundant measure of conservatism in proposing to apply these principles of currency to existing conditions in the United States. We have provided in the bill herewith reported a system which departs only by degrees from the existing system and which at nearly every step leaves the field open for the competitive trial of the new system along with the old. Such a trial, it is reasonable to believe, would result in adherence to that which proves safest and most advantageous to the community. Wide discretion is given to the Comptroller of the Currency and the Secretary of the Treasury to arrest any undue expansion of bank-note circulation, and to refuse to admit to the new system banks which do not prove their solvency and conservatism. The new system, moreover, is to be substituted only over a series of years for the old, and if at any step the substitution appears to involve danger, either to the national credit or to safe rules of banking, it will be in the power of Congress to arrest the change before it has attained a dangerous momentum. Your committee, reenforced by the study of the banking history of all nations, so firmly believe that the new system will vindicate its soundness and benefits to the country that they have so adjusted the provisions of the proposed bill that the relations of the new to the old during the transition period will be essentially a question of the survival of the fittest.

#### A LOAN BY THE BANKS TO THE GOVERNMENT.

Taking up the details of the first portion of the bill, dealing with the existing legal-tender notes of the Government, your committee have endeavored to adopt a system which would be subject to none of the criticism made against the issue of interest-bearing bonds or the taxation of the people for the payment of this demand debt. While the arguments are strong for the adoption of one of these methods of paying back to the creditors of the United States the money thus borrowed for the preservation of the Union, the system adopted is such as to continue to the Government all the benefits of the loan without any of the disadvantages of its character as a demand obligation. The proposed bill places upon the banks the burden of carrying and sustaining this debt. The form of the proposition submitted by your committee makes that portion of the demand debt which is not now covered by gold in the Treasury a loan by the banks to the Government. This loan is made without interest and without any compensation to the banks except what is afforded them by the power to issue a banking currency which is granted in other sections of the bill. There is no profit or return to the banks in thus carrying the nation's debt, and they are required by the bill to assume this obligation as compensation for the franchise and privileges granted them as national banking corporations. This policy is not without precedent in that of European governments, but the privileges granted by those governments are enormously greater, because they are granted to a single bank having a monopoly of all the note issues of the country. The Bank of France, for instance, makes to the Government a loan without interest, which has just been increased to 180,000,000 francs, or about \$35,000,000; but this loan is substantially offset by the deposits of the treasury with the bank, which amounted on January 7, 1898, to 212,268,560 francs, or



32,000,000 francs in excess of the entire sum advanced to the Government. The Government of Austria-Hungary has an advance from the Austro-Hungarian Bank amounting to about 75,000,000 florins, or \$30,000,000, but this is in process of annual reduction by the amount of the profits of the bank charged as a Government tax, but actually employed for the reduction of the loan. These are illustrations of several similar cases, but they serve to show that no country imposes so heavy a burden upon its banks as this bill provides, unless under the pressure of dire necessity, as in the cases of the Governments of Spain, Portugal, and Italy.

This heavy burden assumed by the banks must be given its due weight in measuring any additional privileges which are given them by this bill. The banks are required to redeem this debt of the Government now assumed by them, upon precisely the same terms as the redemption of their own notes while they are conducting a solvent banking business. It is only when, by the refusal to pay such notes, they become insolvent that the Government recognizes again its demand debt and assumes it for the complete protection of the holder of the note and for the benefit of the creditors of the bank by leaving the remaining assets unimpaired for the settlement of their just claims. The form of note thus assumed by the bank with the final redemption guaranteed by the Government combines the strongest of all resources for its ultimate payment. Current opinion sometimes runs into error regarding the whole wealth and resources of the nation as an adequate basis for paper currency. The difficulty with the present redemption system is that this great wealth and these great resources are available only through the power of taxation. The conduct of a proper banking business and the issue of circulating notes, redeemable in coin on demand, requires a mass of assets which can be quickly converted into cash without loss. This security the Government note lacks and the bank note possesses. The note which it is proposed to issue under this bill in lieu of the Government notes is called the national reserve note—a designation which may be taken to imply at once that it has behind it not only the banking resources of the issuing bank, but the reserve strength of the National Government, and also that it is peculiarly available for money reserves of all kinds. It is, moreover, a legal-tender note whose parity with gold is assured so long as the banks maintain the parity of their own notes and for whose parity the Government also is responsible, if it is conceivable that the Government should maintain specie payments while the banks were unable to do so.

#### AN ADEQUATE SUPPLY OF LEGAL-TENDER MONEY.

The country is thus provided with an ample legal-tender currency, consisting of all the notes substituted for the present legal-tender notes, and of all the gold and silver coin in circulation, to the maintenance of whose parity the faith of the Government is sacredly pledged. This mass of legal-tender money, according to the computations of the Treasury for March 1, 1898, consisted of \$705,494,037 in gold coin, \$458,100,347 in standard silver dollars, \$346,681,016 in United States notes, and \$104,669,280 in Treasury notes issued under the act of July 14, 1890. This entire amount of legal-tender money, exceeding \$1,600,000,000, will not be replaced by money which is not legal tender under the bill reported by your committee except by the amount of legal-tender notes redeemed in gold now held in the Treasury. This amount can not exceed in any case about

\$150,000,000 and would still leave other legal-tender money in circulation in the country to the amount of a billion and a half of dollars. Your committee believe that a very large proportion of the existing amount of legal-tender notes of both classes, amounting in the aggregate to about \$450,000,000, will be absorbed by the banks as reserve notes. The inducement to the banks to employ them for this purpose is the power to issue currency upon their general banking assets, which is set forth farther on.

There are several possible results which may follow the authority given the banks to assume the Government debt and issue reserve notes. It is conceivable and probable that a large proportion of the present legal-tender notes will be converted into reserve notes, and will cease absolutely to be redeemable at the Treasury except in the occasional cases of the failure or liquidation of the bank through which they are issued. If, however, only a small portion of the legal-tender notes are thus absorbed, the fact that they are canceled when redeemed in gold by the Treasury will give them a value which will at once remove all question of their prompt redemption and will give them substantially the character of gold certificates. The fact that a note is to be canceled on redemption and not reissued will tend very greatly to prevent its presentation for redemption. This is illustrated by the recent history of the Treasury gold certificates, whose issue was suspended when the Government gold reserve fell below \$100,000,000 in 1893, and has never been resumed. Some of these certificates were received as the equivalent of gold, in payment for the bond issues of 1894, 1895, and 1896, but from July 31, 1896, to March 17, 1898, the whole amount presented for redemption was only \$2,851,260 out of a total of \$39,293,479 outstanding on the earlier date. The United States notes presented within the same period for redemption, according to the daily statements of the Treasury, amounted to \$71,518,332 out of a total of \$237,410,538 outstanding on the earlier date.

Even if it should happen that all the outstanding notes not exchanged for reserve notes should be rapidly presented for redemption, their payment in gold would soon terminate the obligation of the Government upon such notes, because they would be canceled and not reissued. If the entire gold reserve, which stood on March 17, 1898, at \$170,432,007, should be thus paid out in the redemption of notes, that amount of notes would be permanently canceled, and the amount of legal-tender notes of both classes—United States notes and Treasury notes—remaining anywhere in existence would be reduced to about \$280,000,000. The national banks held on December 15, 1897, the date of the latest available report, \$172,596,020 in legal-tender notes or certificates of deposit covering the deposit of such notes with the Treasury. These notes are held to a large extent as necessary reserves, and if their amount is deducted from the notes left outstanding the whole remaining amount of notes would be reduced to the moderate sum of \$108,000,000. It is probable that a considerable portion of these have either been destroyed or would be so carefully hoarded that they would not for many years reach the Treasury either for redemption or for transformation into reserve notes. In any conceivable situation the burden of demand liabilities outstanding against the Treasury would be so reduced that its present burden would be greatly diminished, and the ordinary gold receipts for customs and through the surrender of assay office checks for currency would supply an ample gold fund for all possible demands.

## THE BANKS COMPELLED TO PROVIDE GOLD.

The purpose and effect of the proposed bill is to throw upon the national banks the entire burden of finding gold for the notes of the country. There is no doubt of their ability to do this if it is required by law.

The system proposed by your committee provides an easy and adequate method of obtaining gold for export from the banks without exposing the country or the United States Treasury to the alarm and convulsions which have attended gold exports during the last five years. The banks are required by the bill to maintain the 5 per cent current redemption fund in gold. Redemption agencies are authorized to be established at the various subtreasuries, and such an agency would undoubtedly be established by the Secretary of the Treasury at New York. The actual process of obtaining gold for export would be that any strong bank patronized by exporters would turn over the gold from its own vaults or from its reserves in the New York Clearing House. It is impossible to evade this obligation. In case of an effort to evade it, the process would be that a bank would deliver its own notes to a depositor making a draft upon his account. He would be under no obligation to accept them, but if he did accept them could at once present them for redemption in lawful money. The bank, still wishing to evade the payment of gold, might then tender him reserve notes issued either by itself or by other banks. But these reserve notes would be redeemable out of the gold redemption fund maintained by the banks, and it would only require their presentation at the subtreasury to secure their redemption from this fund. The banks whose reserve notes were thus presented would then be called upon by the Comptroller to make good the deficiency in their coin in the redemption fund and the burden of obtaining the gold would fall directly upon them. This being the case, it would be immaterial to the people of the United States whether one bank by paying its own notes or reserve notes shifted the burden of maintaining the redemption fund upon another bank. The banks in any case would bear the whole burden and would be compelled to so adjust their loans as to secure favorable exchanges, prevent the undue export of gold, and maintain the credit of the business community and of the Government.

## NO CONTRACTION OF THE CURRENCY.

While your committee have thus greatly lightened the burden of the Treasury under any conceivable conditions, they have not provided for any contraction of the existing circulation. The gold now kept in the gold reserve of the Treasury might be paid out in the redemption and cancellation of legal-tender notes, but this operation would simply substitute gold for paper in the circulation and would not in any degree diminish the legal-tender money in the hands of the people. A legal-tender note, under the bill proposed by your committee, might cease to be a menace to the Treasury either by exchange for gold and final cancellation, by the assumption of its current redemption by the banks, or by the enhanced value which it would obtain from the fact that the quantity was diminished; but the legal-tender currency in the hands of the people would not be reduced by either of these operations. Your committee believe that the system of dealing with the Government notes which they propose removes every possible objection which has

heretofore been made to relieving the Treasury of their redemption, except such objections as may be based upon the desire that the Government shall issue an unlimited volume of forced legal-tender paper which is not redeemable in coin or capable of being maintained at any fixed value.

The plan proposed regarding the extension of existing credit facilities we believe is equally free from intelligent objection. The permissive feature in regard to the legal-tender notes, which leaves it optional with their holders to turn them into gold or reserve notes or to continue to hold them is carried out in regard to the proposed bank-note currency. The existing national banking system is taken as it is, and any bank so desiring may continue to issue circulation exactly as it has issued circulation heretofore. After a period of five years it is proposed to relieve national banks from the requirement of keeping bonds in the custody of the United States Treasurer as the basis of circulation. There is no requirement that the bank shall sell or dispose of the bonds, and, in fact, the majority of banks would probably continue to hold them as a part of their general assets. There is no ground for fear that this moderate permissive policy would cause any sensible depreciation of bonds, cause any loss by such depreciation to the banks, or throw any excessive quantity of bonds upon the market.

#### THE NEW PLAN FOR BANK-NOTE ISSUES.

Some of the theoretical arguments in favor of a currency based upon commercial assets, flexibly adjusted to the demands of business, have already been set forth. The present national bank note system, under which the notes are secured by a deposit of interest-bearing bonds with the United States Treasurer, does not afford this responsiveness to the demands of business. On the contrary, under the high premiums which now have to be paid for the bonds, the remarkable phenomenon is presented that as interest rates rise in the money market, indicating the scarcity of the circulating medium, it becomes less profitable to issue national bank circulation and more profitable to loan capital directly without putting it into the form of circulating notes. In this respect, as in respect to the accumulation of money in the Treasury in times of prosperity and large revenues, our present currency system works in the wrong direction—fettering trade when it most needs freedom and flooding the circulation with redundant paper when the markets are most sluggish.

For this reason we believe that the currency should be based upon the commercial assets of the banks, and that there should be no specific pledged security except a safety fund of such amount as, from the experience of our own and other countries, would protect the note holder against any possible loss. Your committee, however, mindful of the unfamiliarity of this proposition in the United States within the last thirty years, propose that no bank shall issue circulating notes which does not have on deposit as many bonds as are now required by law. It is proposed, however, to permit additional issues of notes equal to the amount of United States legal-tender notes which the banks are willing to assume as reserve notes. They then have the privilege of expanding their circulation, increasing their loans, and facilitating credit in just the degree in which they are willing to protect the Treasury by assuming its current gold liabilities. A bank with a capital of \$100,000 is required to deposit bonds with the United States Treasurer, as under existing law, to the amount of \$25,000 at par, and may obtain circulation for an equal amount. It may then deposit United

States notes and receive in exchange reserve notes for the amount deposited, and may receive in addition notes based upon its general assets. If the bank avails itself of the privilege thus accorded, it would deposit \$35,000 in United States notes, receiving therefor \$35,000 in reserve notes, and in addition \$35,000 in untaxed notes based upon its general assets. The reserve notes would constitute a current liability, but not an ultimate liability in case of failure or liquidation. The notes for which the bank would be ultimately liable would be the \$25,000 based upon United States bonds and the \$35,000 based upon its commercial assets. This would make a total of \$60,000 in notes for which the bank would be directly liable. Against this amount it would hold bonds of a par value of \$25,000 and a market value, if they were 4 per cent bonds due in 1907, at 114, of \$28,500.

Provision is also made that a bank may issue additional notes, with the approval of the Comptroller of the Currency, subject to a tax of 2 per cent, if the whole currency-note circulation exceeds 60 per cent of the capital, and is less than 80 per cent, and may issue additional notes subject to a tax of 6 per cent when the currency-note circulation exceeds 80 per cent. The national-currency notes can not in any case exceed 100 per cent of the paid-up capital of the bank. The purpose of this provision is to afford a margin for issues in times of emergency, when currency is hoarded and the demand for it is unnaturally increased. There would be no danger of the abuse of this privilege, because it is left under the control of the Comptroller of the Currency, and he would look with peculiar suspicion upon applications for excessive issues of currency under normal conditions.

The security against the excess of note issues above the value of the bonds would be the general assets of the bank, and the note holder is given a first lien upon all the assets of the bank. There can be no question of the perfect sufficiency of such security. If there were no other security whatever, the losses to note holders would be but a fraction of 1 per cent in many years. Secretary Gage, in his annual report for the fiscal year 1897, stated, upon statistics prepared by the Comptroller, that of 330 national banks placed in the hands of receivers during the existence of the national banking system for 35 years, there were only 18 whose assets would have failed to fully cover their circulating notes under the system which he proposed of issuing 25 per cent of the capital in currency based upon commercial assets. This proposition would remain substantially true under the system proposed by your committee if the banks took out 60 per cent of their capital in currency notes, and the deficiency would be only slightly increased if they took out all the notes which it is possible for them to issue under the bill reported. If there were no security whatever except the assets of the banks, with the liability of their holders for the amount of their shares, the losses to note holders would be so small that they would hardly reach an appreciable per cent of the income of the humblest citizen, and would count for nothing against the safety afforded by a bank-note currency in maintaining the metallic standard, or against the advantages to the country in the extension of credit in communities where it is now obtainable only at extravagant rates of interest.

#### THE BANK-NOTE GUARANTY FUND.

But your committee do not propose to permit even the possibility of a trifling loss to fall upon any holder of a note issued by a national bank of the United States. They propose a tax upon the banks for the crea-

tion of a safety fund out of which may be paid the notes of any bank which fails with assets insufficient to pay its note holders in full. They propose, moreover, that in the case of any bank failure there shall be no delay in the redemption of the notes, but that they shall be paid from the general fund created by taxation upon the banks, and that these payments shall be afterwards reimbursed to the fund when the assets are collected and settled. This bank-note guaranty fund is to consist at the outset of 5 per cent of the whole circulation for which the banks are ultimately liable. No guarantee fund of this kind will be required against the reserve notes. Provision must be made for their current redemption by payment by the banks to the bank-note redemption fund. But this is distinct from the guaranty fund, and the United States are the ultimate debtor for the reserve notes, and they do not fall as a burden upon the guaranty fund. The experience of all banking history demonstrates that this guaranty fund will be many times more than adequate for the redemption of the notes of failed banks. It can not be considered an excessive burden upon the banks, for it withdraws from them the use of only a portion of the currency which they are permitted to loan to the community upon commercial paper, in addition to the loan of such portions of their capital and deposits as are not invested in the required legal reserves.

It is proposed that if this 5 per cent guaranty fund becomes reduced or impaired by the redemption of notes of failed banks in advance of reimbursement from the assets the banks may be called upon to make good the fund. The fact that this liability is unlimited in some of the bills introduced into Congress has suggested the fear that strong banks may hesitate to enter the system for fear that they would be called upon to make large contributions for the redemption of the notes of weak banks. We do not believe that this fear is well founded. The very fact that it is not, and that a tax of 1 per cent a year would many times cover the possible losses upon such a currency, justify the fixing of such a limit. We have, therefore, provided that the liability of any national bank to the guaranty fund to make up losses caused by the redemption of the notes of failed banks shall never exceed 1 per cent annually upon its whole circulation. If it is conceivable that the demands of a given year should slightly exceed 1 per cent, it is not within the range of probability that they would equal that amount for a series of years, so that the impairment of the fund in a trifling degree for a single year would be made up in the following year or years. A liability of 1 per cent upon the circulation of a national bank is only the amount of the present tax upon circulation, so that we propose no added burden in any case, and the small burden proposed becomes contingent and improbable instead of fixed and certain. If the present tax of 1 per cent were to continue to be collected upon circulation and the bank-note circulation increased, as we believe it will within a very short period of years, to \$300,000,000, the annual collections would be \$3,000,000, and this would cover many times not only the losses in cases where failed banks had not sufficient assets to pay their notes, but would many times cover the entire amount of notes of failed banks, even where the assets were more than sufficient. The United States Treasury collected, from 1864 to the close of the fiscal year 1897, \$81,411,384 in taxes on circulation; from 1864 to the close of the fiscal year 1883, \$60,940,067 in taxes on deposits; and from 1864 to the close of the fiscal year 1883, \$7,855,887 in taxes on capital, making a total of \$150,207,339 for a period of thirty-four years, or an average of about \$4,400,000 per year. Your committee propose to lighten these taxes and to impose no contingent

liability which can equal the amount thus collected. The system, therefore, imposes no risk and no added burdens upon strong banks, and imposes no danger of loss to the holder of the notes of any bank.

#### ASSET BANKING IN THE LIGHT OF EXPERIENCE.

The system of issuing notes upon the commercial assets of a bank is the successful system of nearly every country of the world. There is a limit upon the circulation of the Bank of France, the Imperial Bank of Germany, the Austro-Hungarian Bank, and several other of the great national banks of Europe, but that portion of their circulation which is not covered by the coin reserve is permitted to be covered in a large degree by commercial assets and is not required to consist of government securities. A better illustration of the safety of note issues upon business assets is afforded by the history of Scotland and Canada, where competing banks issue their notes upon limited amounts of capital. The Scotch banks are not required to keep any guaranty fund and do not submit to any official inspection, but their notes circulate at par throughout the country and their quality is maintained by constant redemption. The Canadian banking system is of a similar character, but the 38 chartered banks are required to contribute toward a bank-note guaranty fund of substantially similar character to that proposed in the bill reported by your committee. The Canadian banks are not subject to Government inspection, but each bank employs its own inspector to supervise the accounts of the branches. The exhaustion of the guaranty fund has never occurred in Canada, and it is not likely to occur. The notes are a first lien upon the assets, and the stockholders are subject to a duplicate liability, as in the system proposed by your committee. Any bank in the Canadian Dominion promptly accepts the note of a failed bank at par, because it is known that the note will be promptly redeemed in full from the bank-note guaranty fund.

Reliance is sometimes placed by the critics of commercial banking upon the banking experience of the United States prior to 1861. Your committee do not believe that the conditions then existing apply to the situation of to-day. Bad banking is almost unavoidable in a new and undeveloped country, and the note issues usually play but a minor part in the abuse of credit. Banking experience has made great strides since 1861, and the charters of the great European banks have been materially modified within that period to conform to modern conditions and enlightened banking experience. Careful examination of the history of banking in the United States prior to 1861, moreover, discloses a situation which need not be feared by the advocate of note issues upon commercial assets. The systems which achieved the greatest success, whose notes passed at par throughout the Union or at a discount representing only the cost of exchange at that time, were those which issued notes upon commercial assets without pledged securities and which guaranteed the solidity of their issues by prompt redemption in coin on demand. This was the history of the Suffolk system, so successful in New England, and was the history of the State Bank of Indiana, in which one of the ablest of American financiers, Hugh McCulloch, completed his education. The State Bank of Indiana passed through the crisis of 1857 without suspending specie payments, and succeeded in retiring its circulation and liquidating its debts without loss to its creditors when the Government forced the suspension of specie payments by the issue of the demand notes in 1862.

## SOLIDITY OF NOTE ISSUES UPON COMMERCIAL ASSETS.

With sufficient protection afforded by the bank-note guaranty fund against the occasional failure of a badly managed bank, the essential solidity of note issues upon commercial assets is bound up with the solidity of the business of the country. The advantage of having the whole commercial assets of the banks of the country pledged for the redemption of their notes lies in the fact that nearly the whole negotiable wealth of the country passes through their hands. The aggregate capital, surplus, undivided profits and individual deposits of national, State, and private banks, loan and trust companies and savings banks, as reported by the Comptroller of the Currency at the date of June 30, 1897, or about that date, was \$6,822,326,870. It is fair to assume that many of these banks which are not national banks would enter the system under the benefits afforded by the bill reported by your committee. These same items for the national banks alone on December 15, 1897, were \$2,887,000,000, and their loans were \$2,082,608,324. Since these loans are all payable within ninety days, with a circulation of \$300,000,000 issued by the existing national banks alone, the entire amount necessary to redeem this circulation in full would pass through the national banks within a period of about fifteen days. This control over quick assets, afforded by maturing commercial paper as well as by accumulated cash reserves, explains the secret of the greater ability of the banks to maintain the current redemption of circulating notes than of the Treasury, with its comparatively small resources. The general security of banking upon commercial assets and the fact that the system could not break down, except under an avalanche of calamity which would carry national, State, municipal, and private credit down also, is strikingly set forth in the report of the monetary commission appointed by the business men of the country for the framing of a currency bill, from which your committee has embodied several sections in the bill herewith reported. They say in their report:

The objection that is sometimes made that the larger banks in the great cities would not issue notes because of an apprehended liability for other banks is shown by statistics to be groundless. 1893 was the year of largest bank failures; but had all the banks of the country then issued notes up to 80 per cent of their capital, the amount of their assessment to make good the ascertained deficiencies of that year up to the time of the Comptroller's report of 1896 would have been only a fraction of 1 per cent. Had 80 per cent of the capital of all national banks been issued in notes upon the proposed plan since the beginning of the national banking system in 1863, the assessment upon the banks annually would have been an amount so insignificant that it need not be taken into account. Taking the country banks as a whole, it is found that on October 5 last they had \$401,000,000 of the \$631,000,000 of national-bank capital. Should they issue notes up to 80 per cent of that capital, they would have \$321,000,000 of notes, and there would be \$1,956,000,000 of resources against these notes, not counting stockholders' liability.

If these resources of the country banks are insufficient security for this amount of notes, they will be insufficient only because there would then be such a condition of business paralysis that Government, municipal, and railway bonds would be valueless, and also few, if any, banks in the reserve cities would remain solvent. The occurrence of this disaster is so improbable that its consideration may be dismissed.

## THE PROTECTION OF DEPOSITORS AND OTHER CREDITORS.

Some figures prepared in the office of the Comptroller at the request of your committee indicate the adequacy of the assets of failed banks not only to fully protect their note holders, but to afford a large dividend to depositors and other creditors. The claims proved in the case of 181 failed banks, with a capital of \$28,605,800, whose accounts have been closed from 1865 to 1897, were \$48,608,635. The collections from



assets were \$40,680,908 and from assessments upon the shareholders \$6,369,033, making total collections of \$47,049,941. The dividends paid were \$35,165,660, and the cash returned to shareholders or in the hands of the Comptroller, in cases where the assets proved sufficient without the assessment upon shareholders to pay dividends in full, was \$1,013,741. The assets thus reported were absolutely exclusive of the amount required for the redemption of outstanding notes, since these were redeemed out of the proceeds of the bonds in the Treasury. The circulation thus redeemed was \$14,262,558. The two items of dividends paid and cash returned to shareholders make a total of \$36,179,401, or nearly 75 per cent of the claims proved. It is reasonable to assume that if the capital invested in bonds to secure circulation had been a part of the general assets it would have afforded also dividends of 75 per cent. The total sums available in that case would have been such that a dividend of 75 per cent could have been declared upon the circulation if it had not constituted a first lien upon the other assets. The two safety funds—the current redemption fund and the bank-note guaranty fund—would have afforded an additional asset of 10 per cent of the whole volume of circulation, and might have raised the dividend upon circulation to 85 per cent, without any draft upon the assets held for the security of other creditors.

The situation would not have been materially different if the 60 per cent of the capital, representing the untaxed note circulation proposed by your committee, had been outstanding. The circulation in that case would have been \$17,163,480. The assets available for dividends to note holders and general creditors and for return to shareholders would then have been increased by the sum of \$12,872,610, representing 75 per cent of the circulation, and by the value of the two safety funds, amounting to \$1,716,348. The entire assets thus available for disbursements in dividends would have been \$50,768,359, against claims proved amounting to \$65,772,115. If the circulation was provided for in full out of these assets, the remaining assets would be \$33,604,879, or only \$2,574,522 less than they were under existing law. The percentage of dividends paid would have been more than 69 per cent. This difference between 75 and 69 per cent measures, therefore, the possible loss to depositors and other creditors by the change from a currency based upon bonds to one based purely upon commercial assets. It is not unreasonable to believe that the double examinations and other safeguards provided by the proposed bill, and the precautions which will undoubtedly be taken by the Comptroller of the Currency, would wipe out this trifling difference and make the new system exactly as secure to general creditors as the existing system.

#### THE LOCALIZATION OF CREDIT.

One of the essential advantages of abolishing national bonds as a security for circulation and substituting a currency based upon commercial assets is the localization of the currency. This is brought about in several ways. The requirement that a part of the capital shall be invested in bonds in itself takes that capital out of the community and transfers it to the keeping of the seller of the bonds. The bonds were sold originally for the purpose of transferring capital from the control of the purchasers to the control of the Government of the United States for purposes of war. When sold and paid for in the proceeds of local industry, they transfer the control of capital from the purchaser to the man from whom he purchases. A bank in a community of small means

is thus deprived at the outset of a part of the funds which it ought to have for loans in the community. The extent of this loss is indicated by the consideration that with \$100,000 of capital (upon the basis of the 4 per cent bonds of 1907 at 114) only \$78,947 in circulating notes can be obtained under existing law, while under the plan proposed by your committee it is possible to issue \$60,000 in currency notes, \$35,000 in reserve notes, and to loan in addition \$28,000 of the unexpended capital, while \$40,000 additional may be issued in emergencies, subject to a tax.

The community is the gainer in the extension of credit and the promotion of its local industries by the difference between \$78,947 and a usual sum of \$123,000 and a possible \$163,000 under the proposed plan. More than this, a currency based upon commercial assets and not rendered rigid in volume by the deposit of special security comes back promptly to the issuing banks for redemption. The tendency of recent years for currency to drift to New York, where it is loaned at low rates of interest, would be largely arrested by the necessity of promptly sending notes back for redemption, and by the retirement of notes which were not needed in the commercial centers. Notes thus received back could be reissued and would, at the worst, be in the hands of the community for at least a time before they again took their flight toward the money centers.

The capacity to make larger loans means the capacity of the banks to reduce interest rates without loss of profits. It means that if any bank undertakes to resist the natural law of decreasing interest under increased facilities, new banks may be formed without sinking their capital in bonds purchased at a premium, and may compete for the legitimate profits afforded by reasonable interest rates. The fact that such conditions make a radical difference in the banking power and prosperity of a community is illustrated by some figures taken from official reports regarding the condition of the Southern States in 1860. These figures are as follows:

State.	Banking capital.	Loans and discounts.	Circulation.	Deposits.
Maryland.....	\$12,568,962	\$20,898,762	\$4,106,869	\$8,874,180
Virginia.....	16,005,156	24,975,792	9,812,197	7,729,052
North Carolina.....	6,626,478	12,213,372	5,594,057	1,487,272
South Carolina.....	14,962,062	27,801,912	11,475,634	4,165,615
Georgia.....	16,689,560	16,776,282	8,798,100	4,738,289
Alabama.....	4,901,000	13,570,027	7,477,976	4,851,153

These figures are thus commented upon and compared with existing conditions in a recent paper by Mr. Charles A. Conant, of Boston:

A glance at the column of deposits and then at that of loans shows how impossible it would have been for these banks to grant the accommodation they were able to grant without the power of note issue. That power was taken away by the levy of the 10 per cent tax on State bank notes, and the national banks of Virginia now have discounts of \$15,268,383, with \$15,347,290 of deposits and only \$1,993,442 in note issues. Alabama, in place of her \$13,500,000 of loans, has only \$6,570,755 and a note circulation of \$1,453,170, while South Carolina has seen her bank loans shrink from \$27,800,000 to \$5,943,367, with the shrinkage of the circulation of her banks from \$11,500,000 to the beggarly pittance of \$451,023.

#### THE BENEFITS OF BRANCH BANKING.

The bill reported embodies a recommendation that national banks be permitted to establish branches. Branch banking has not been familiar in this country since the liquidation of the successful State banks

of Ohio and Indiana at the beginning of the civil war. It is a system in almost universal use in other civilized countries where the methods of modern finance are well developed, and is almost essential to the economical use of capital and the distribution of credit. One of the most striking benefits of branch banking is that a branch may be created and maintained at a profit in a community without sufficient business for an independent bank. This would permit the extension of credit into many localities in the thinly settled portions of the country, where it is now impossible. Branch banking, moreover, permits the more ready flow of capital from communities where it is not needed to those where it is needed than does the operation of independent banks. It does not drain of money a community where money is needed, as would be the case with banks required to invest their deposits in securities, but carries into every community where the interest rate is high enough to attract money the amount which is there demanded and which is in less demand at other points. It often happens that one community may be saving largely, without expending in manufactures or other productive works, while another community may need the money thus saved for such works. Branch banking may be compared, in the fluidity which it gives to capital, to a connected series of tanks with open pipes between, while the possible borrowings of independent banks are more like a series of tanks whose pipes require to be opened when any change is sought in the level of the fluid.

Branch banking in connection with reasonable freedom of note issues has produced such favorable conditions in Scotland and Canada that interest rates are almost uniform throughout those countries, even in the most remote sections, and disclose none of the striking differences disclosed in this country between rates in the money centers and in certain remote sections. The ten chartered banks of Scotland have more than 900 branches, and the 38 incorporated banks of Canada have nearly 500, in each case for a population which is less than a tithe that of the United States. There can be no question in the opinion of your committee that the combination of the power to establish branches with the power to issue a reasonable amount in notes upon commercial assets would give a vigor to the credit system of this country which has been lacking under the present complicated and unscientific system of fixed Government issues, rigid security for bank notes, and the prohibition upon the power to establish branches.

#### THE ULTIMATE OPERATION OF THE BILL.

The bill reported by your committee looks ultimately to the elimination of Government paper money from circulation. Whether the process will be slow or rapid may depend upon the disposition of the banks and the turn of financial events. The reserve notes for which the banks are liable will be gradually reduced when the Government assumes the liability for such notes issued by failed and liquidating banks. With the withdrawal of bonded security also, the ultimate currency of the country will consist of gold and silver coin of full legal-tender power, and of notes issued by the banks under the provisions of the proposed bill. The growth in the wealth of the country and in its ability to maintain the expense of a metallic currency and to retain at home a large portion of the great gold production of the United States will tend to swell the gold resources of the country until gold coin is likely to become a common factor in daily exchanges among the people. This condition of affairs will operate at once to simplify and strengthen the

currency system and to increase the security afforded by the proposed law to the holders of bank notes. The banks will be required, when reserve notes and legal-tender notes have alike disappeared, to fulfill all requirements of law calling for lawful money by keeping gold and silver coin, and the present quantity of silver is likely to be so completely absorbed for retail exchanges that the bank reserves will consist almost entirely of gold. This being the case, it is obvious that the issue of a banking currency based purely upon assets, without either bonds or reserve notes, will involve no risk of undue inflation or of loss to the note holder. The bill reported by your committee proposes no change in existing laws regarding reserves against deposits. The cash reserves required in reserve cities at the date of the reports of the national banks to the Comptroller on December 15, 1897, were \$251,176,860, and the cash reserves required in country banks were \$55,940,589, making a total of \$307,117,449. The cash reserves held at the same date were \$410,568,427. These amounts are now held largely in legal-tender notes, but the abolition of such notes would leave a void which could be filled only by gold. If the circulation of the national banks therefore, without allowing for any growth in the meantime, should rise to the amount of their capital on December 15, 1897, which was \$629,655,365, the reserves held against deposits, with the requirement of the two special funds for current redemption and for the guaranty of the ultimate redemption of the notes, amounting to 10 per cent of the circulation outstanding, would in themselves exceed \$463,000,000 in gold, or nearly 75 per cent of the outstanding notes. It is upon the solid rock of metallic currency like this, with additional metallic currency in circulation among the people, that your committee propose to plant finally, by the gradual evolution of events, the monetary system of the United States. We believe that the arrangements proposed in the bill will accomplish this result gradually enough to avoid any shock to any vested interest, to the banks, or to their patrons of any class, but that it will be accomplished so certainly that the United States almost upon the enactment of a measure promising such results will find their credit greatly enhanced abroad and placed upon unassailable foundations at home.

JAMES T. MCCLEARY,  
GEORGE W. PRINCE,  
JOHN MURRAY MITCHELL,  
*Special Subcommittee.*

H. R. 10289, FIFTY-FIFTH CONGRESS, SECOND SESSION.

IN THE HOUSE OF REPRESENTATIVES,

MAY 11, 1898.—*Mr. Walker, of Massachusetts (by instruction of the Committee on Banking and Currency) introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.*

A BILL To provide for strengthening the public credit, for the relief of the United States Treasury, and for the amendment of the laws relating to national banking associations.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That* there is hereby created a division in the Treasury Department to be known as the division of issue and redemption.  
Issue and redemption division established.

There is hereby created a board consisting of three members to be known as the comptrollers of the currency.  
Board of comptrollers of the currency.  
The said board shall have the management of the division of issue and redemption, and shall take the place of the Comptroller of the Currency, performing all his duties as now defined by statute, and such others as are prescribed by this act. The office of Comptroller of the Currency is hereby abolished.

The members of said board shall be appointed by the President by and with the advice and consent of the Senate, and shall be removed only with the consent of the Senate for cause stated in writing. The term of office of said Comptrollers shall be twelve years: *Provided, however,* That the terms of the members of the board first appointed shall be four years, eight years, and twelve years, respectively. The member appointed for four years shall be known as First Comptroller and the other members as associate comptrollers. Thereafter the associate comptroller who shall have only four years to serve shall by succession become First Comptroller.

The First Comptroller shall be chairman of the board and shall have the custody of all the bullion, moneys, and securities held in the division of issue and redemption. He shall give to the United States a bond in the sum of two hundred and fifty thousand dollars, with not less than two responsible sureties, to be approved by the Secretary of the Treasury, for the faithful discharge of the duties of his office.

The salary of the First Comptroller shall be at the rate of eight thousand dollars per annum, and that of each Associate Comptroller shall be at the rate of seven thousand five hundred per annum.

Funds in division of issue and redemption.

SEC. 2. That to the division of issue and redemption shall be committed all functions of the Treasury Department pertaining to the issue and redemption of notes and certificates, and to the exchange of coins; and in the said division of issue and redemption shall be held the guaranty fund and the redemption fund of the national banking associations, and through it shall be conducted the operations of redeeming the circulating notes of national banking associations, as prescribed by law; and to this division shall be transferred all gold coin held against outstanding gold certificates, all silver dollars held against outstanding silver certificates, all United States notes held against outstanding currency certificates, and all silver dollars and silver bullion held against outstanding Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, and such amount of subsidiary and minor coins as the Secretary of the Treasury shall consider necessary for the issue and exchange of such coins, and the funds deposited with the Treasurer for the redemption or retirement of the circulating notes of national banking associations. All accounts relating to the business of this division shall be kept entirely apart and distinct from those of the other divisions of the Treasury Department; and the accounts relating to the national banking associations shall be kept separate and apart from all other accounts in said division of issue and redemption.

Reserve against U. S. notes and silver.

SEC. 3. That a reserve shall be established in the division of issue and redemption aforesaid by the transfer to it by the Treasurer of the United States from the general funds of the Treasury of an amount in gold, in coin and bullion, equal to twenty-five per centum of the amount, both of United States notes and Treasury notes issued under the Act of July fourteenth, eighteen hundred and ninety, outstanding, and a further sum in gold equal to five per centum of the aggregate amount of the coinage of silver dollars. This reserve shall be held as a common fund, and used exclusively for the redemption of said notes and in exchange for said notes and for silver dollars and subsidiary and minor coins, as hereinafter provided.

Duty of the Secretary of the Treasury to maintain such reserve.

SEC. 4. That it shall be the duty of the Secretary of the Treasury to maintain the gold reserve in the division of issue and redemption aforesaid at such sum as shall secure the certain and immediate redemption of all notes and exchange of all silver dollars presented, as hereinafter provided for; and for this purpose he may, from time to time, transfer to the division of issue and redemption any funds in the Treasury, not otherwise appropriated, in excess of an actual cash balance of fifty million dollars; and in addition thereto he is hereby authorized to issue and sell for gold, whenever it is in his judgment necessary to the ends aforesaid, and for no other purpose, certificates of indebtedness of the United States bearing interest at a rate not exceeding three per centum per annum, payable in gold coin at the end of five years, but redeemable in gold coin at the option of the United States after one year; and the proceeds of all such sales shall be paid into the division of issue and redemption for the purpose aforesaid.

SEC. 5. That the Secretary of the Treasury may, and he is hereby authorized to, exchange gold coin held in the general cash of the Treasury for United States notes or Treasury notes of eighteen hundred and ninety held in the division of issue and redemption; and he is hereby further authorized to exchange such notes of one denomination for a like amount in notes of another denomination, or notes of either kind for a like amount in notes of the other kind, and may replace notes worn or unfit for circulation by new notes of the same kind; but none of these exchanges shall at any time alter the amount of money to be held in the said division.

The Secretary of the Treasury may transfer funds.

SEC. 6. That the division of issue and redemption shall, at Washington and at such subtreasuries of the United States as the Secretary of the Treasury may from time to time designate, on demand:

Duties of division of issue and redemption.

First. Pay out gold coin for gold certificates;

Second. Pay out United States notes for currency certificates;

Third. Pay out gold coin in redemption of United States notes and Treasury notes of eighteen hundred and ninety;

Fourth. Pay out silver dollars for silver certificates of any denomination;

Fifth. Issue silver certificates of denominations of one dollar, two dollars, and five dollars, in exchange for silver dollars and for silver certificates of denominations above five dollars;

Sixth. Pay out gold coin in exchange for silver dollars;

Seventh. Pay out silver dollars held in the division of issue and redemption aforesaid, and not covered by outstanding silver certificates, in exchange for gold coin, United States notes, or Treasury notes;

Eighth. Pay out United States notes or Treasury notes, not subject to immediate cancellation, in exchange for gold coin;

Ninth. Pay out legal-tender money of the United States in exchange for subsidiary and minor coins presented in sums of twenty dollars or multiples thereof, and pay out subsidiary and minor coins in sums of twenty dollars or multiples thereof, in exchange for any legal-tender money of the United States;

Tenth. Pay out in redemption of national bank notes the moneys in the division available for that purpose.

SEC. 7. That gold certificates and currency certificates shall, whenever presented and paid or received in the Treasury, be retired and canceled. All provisions of law authorizing the issue or reissue of gold certificates or currency certificates are hereby repealed.

Gold certificates and currency certificates retired and canceled.

SEC. 8. That when the division of issue and redemption shall have paid out gold coin in exchange for United States notes and Treasury notes presented for payment, it shall from time to time cancel such amounts of notes so paid as shall not exceed the amount of national reserve notes issued subsequent to the taking effect of this act.

Exchange of gold coin and United States notes and Treasury notes.

SEC. 9. That the Secretary of the Treasury may, in his discretion, from any funds in the general Treasury not set apart under section four of this Act or otherwise appropri-

United States notes may be transferred for cancellation.

ated, transfer to the division of issue and redemption any United States notes or Treasury notes which, on such transfer, could then lawfully be canceled under the provisions of this Act if they had been redeemed on presentation; and when so transferred the same shall be canceled. And the Secretary of the Treasury, whenever there may be United States notes or Treasury notes in the general Treasury which are not available as surplus revenue, and which upon transfer to the division of issue and redemption could then lawfully be canceled under the provisions of this Act, may exchange such notes with the division of issue and redemption for gold coin, and such notes shall thereupon be canceled.

United States notes redeemed in gold not to be paid out except for gold or United States bonds.

SEC. 10. That United States notes or Treasury notes once redeemed shall not be paid out again except for gold coin, unless there shall be an accumulation of such notes in the division of issue and redemption which can not then be canceled under the provisions of this act, in which case the Secretary of the Treasury shall have authority to invest the same, or any portion thereof, in interest-bearing obligations of the United States for the benefit of the gold reserve in the division of issue and redemption, such obligations to be held in the aforesaid division, subject to sale at the discretion of the Secretary of the Treasury for the benefit of the said reserve in the said division of issue and redemption, and not for any other purpose.

No United States notes less than ten dollars.

Silver certificates, one dollar, two dollars, five dollars.

SEC. 11. That no United States note and no Treasury note issued under the act of July fourteenth, eighteen hundred and ninety, of a denomination less than ten dollars shall hereafter be issued, and silver certificates shall hereafter be issued or paid out only in denominations of one dollar, two dollars, and five dollars against silver dollars deposited in the division of issue and redemption, or in exchange for silver certificates of denominations exceeding five dollars.

Three classes of notes defined.

SEC. 12. That the circulating notes provided for in this Act shall consist of three classes, namely, national reserve notes, national bank notes, and national currency notes.

The words "national reserve notes," when used in this Act, shall be understood to mean notes issued to a national banking association in exchange for United States notes, and for whose current redemption in gold coin the banking association receiving the same shall be made immediately liable, and whose ultimate payment shall be made by the Government of the United States.

That the words "national bank notes," when used in this Act, shall mean circulating notes issued by national banking associations, and secured by deposits of United States bonds.

That the words "national currency notes," when used in this Act, shall be understood to mean circulating notes issued by a national banking association, and constituting a direct and ultimate liability of the said banking association, as provided in this Act.

Bank notes not to exceed capital of bank.

SEC. 13. That any national banking association, on complying with the provisions of this Act, shall, if its capital be



wholly paid up and unimpaired, be entitled to receive from the Comptrollers of the Currency national bank notes or national currency notes, or both, of the different denominations hereinafter specified (none, however, being less than ten dollars) in blank, registered and countersigned, as provided by law, to the amounts and in the manner following, and on the following terms and conditions, but in no case exceeding *in the sum of its bank notes and currency notes* the amount of such paid-up and unimpaired capital:

Subdivision A. That any national banking association may deposit with the Treasurer of the United States, under such regulations as the Secretary of the Treasury may approve, United States notes to an amount not exceeding its paid-up and unimpaired capital, and shall then be entitled to receive in exchange therefor from the Comptrollers of the Currency an equal amount of national reserve notes, of the kind and denominations described in sections twelve and fifteen of this Act. National re-  
serve notes.

United States notes received into the division of issue and redemption in exchange for national reserve notes shall be canceled as received.

Subdivision B. That upon the deposit by any national banking association of United States bonds, bearing interest, as provided by law under the provisions of sections fifty-one hundred and fifty-nine and fifty-one hundred and sixty of the Revised Statutes, as amended by the acts of June twentieth, eighteen hundred and seventy-four, and July twelfth, eighteen hundred and eighty-two, it shall be entitled to receive from the Comptrollers of the Currency national bank notes of different denominations in blank, as provided by this act, equal in amount to the par value of the bonds so deposited; and any national banking association now having bonds on deposit for the security of circulating notes less in amount than the par value of the bonds, or which may hereafter have such bonds on deposit, shall be entitled to receive, immediately upon its reorganization under this act, national bank notes to an amount which shall increase to the par value of the bonds the aggregate amount of circulating notes held by such association in consequence of the deposit of such bonds: *Provided*, That nothing herein contained shall be construed to modify or repeal the provisions of sections fifty-one hundred and sixty-seven and fifty-one hundred and seventy-one of the Revised Statutes, authorizing the requirement of additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the national bank notes outstanding for which said bonds may be deposited as security. National bank  
notes.

Subdivision C. That any national banking association, having deposited with the Treasurer of the United States United States notes and received in exchange therefor national reserve notes, shall be entitled to receive and issue, in addition thereto, an amount of national currency notes equal to the amount of national reserve notes received as aforesaid: *Provided, however*, That the amount of national currency notes thus issued shall not exceed the National cur-  
rency notes.

amount of its national-bank notes outstanding: *And provided further*, That the notes thus issued shall not exceed forty per centum of the paid-up and unimpaired capital of the bank, but an additional amount of national currency notes may be issued subject to the tax on circulation provided in section twenty-nine of this act, without any increase of the circulation secured by United States bonds and without taking out any additional reserve notes.

National currency notes paramount lien on all assets.

SEC. 14. That the national currency notes shall constitute a paramount lien upon all the assets of the association issuing such notes, after sufficient proceeds thereof shall have been applied to redeem in full the outstanding national-bank notes.

Description of notes.

SEC. 15. That in order to furnish suitable notes for circulating the Comptrollers of the Currency shall cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom and numbered such quantity of circulating notes in blank of the denominations of ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars as may be required to supply the associations entitled to receive the same.

Each national reserve note shall be in the same form and contain the same statements as the present United States legal tender notes, and in addition thereto shall express upon its back or reverse side the promise of the national banking association receiving the same to pay at the office of said bank, on demand, in gold coin, the sum specified on its face, which statement shall be attested by the signatures of the president or vice-president and cashier of such association.

Each national bank note shall conform as nearly as practicable, subject to the provisions of this Act, with the national bank notes issued prior to the passage of this Act, except that it shall express the promise of the association to pay it, upon presentation at the office at which it was issued, in gold coin of the United States or national reserve notes.

Each national currency note shall express upon its face the promise of the association receiving and issuing the same to pay, upon presentation at its office, the specified amount on demand, in gold coin of the United States or national reserve notes, attested by the signatures of the president or vice-president and the cashier or assistant cashier of such association; it shall also bear upon its face the statement that it is issued in accordance with the provisions of this Act, which statement shall be attested by the written or engraved signature of the First Comptroller of the Currency, and shall bear such devices and other statements and be in such form as the Comptrollers of the Currency shall, by regulation, direct.

No circulating notes shall be issued to or by any national banking association other than those described in this Act.

Legal status of notes.

SEC. 16. That national reserve notes issued to any national banking association, as defined in this Act, shall

be a full legal tender at their face value for all debts, public and private, except duties on imports and interest on the public debt, and shall be available for use in the reserves of any national banking association.

Every national banking association formed or existing under this Act shall take and receive at par national bank notes or national currency notes issued by any lawfully organized national banking association.

No national banking association shall count or report any of its own national bank notes or national currency notes as a part of its cash or cash assets.

SEC. 17. That each year after the expiration of four years from the passage of this Act the Comptrollers of the Currency may, from time to time, and under regulations to be prescribed by them, reduce the amount of the United States bonds required to be deposited under the provisions of this Act by one-fourth of the amount so required, and from and after the expiration of eight years from the passage of this Act no such bond deposits shall be required; and any national banking association having at any time bonds of the United States deposited with the Treasurer in excess of the amount required by law to be at such time deposited may withdraw the whole or any part of such excess: *Provided, however*, That such decrease in the amount of bonds required to be deposited shall not of itself in any way interfere with the amount of circulating notes previously issued by said banking association: *And provided further*, That nothing herein contained shall be construed to authorize or permit the withdrawal of bonds required to be deposited under the provisions of section fifty-one hundred and fifty-three of the Revised Statutes of the United States as security for the safe-keeping and prompt payment of the public moneys deposited with any national banking associations.

Reduction of  
bond deposits re-  
quired.

SEC. 18. That no national banking association which shall be organized within eight years after the passage of this act shall be required, preliminary to commencing business, to deposit any greater amount of United States bonds than it would then be required to have on deposit if it had been organized immediately after the passage of this act.

Bonds required  
during eight  
years.

SEC. 19. That after so many United States notes have been canceled and destroyed, as herein provided, that in the judgment of the Comptrollers of the Currency no more of such notes are available for use as a basis for the issue of circulating notes, the deposit of such United States notes as provided in section thirteen of this act shall no longer be required; but the Comptrollers may require any national banking association thereafter organized to obtain from the division of issue and redemption reserve notes in the manner provided in section twenty of this act. When in the judgment of the Comptrollers no more national reserve notes are available for such use, the taking out of such reserve notes, as provided in sections thirteen and forty of this act, shall no longer be required, and national banking associations shall then be entitled to receive

Currency notes  
finally without  
taking out re-  
serve notes.

national currency notes to the amount which they would have been entitled to receive if such United States notes or reserve notes were available for such use.

Withdrawal  
and redistribu-  
tion of reserve  
notes.

SEC. 20. That the Comptrollers of the Currency may from time to time, under regulations to be prescribed by them, withdraw from circulation national reserve notes; but such withdrawals shall be first from those banks having such reserve notes in excess of forty per centum of their capital. Thereafter such withdrawals shall be so made as to equitably adjust the respective holdings of national reserve notes of the several banks. The national reserve notes so withdrawn shall be canceled and destroyed; but the Comptrollers of the Currency are hereby authorized to issue, in exchange for gold coin, to national banking associations, now existing or hereafter organized, national reserve notes to an amount not exceeding in the aggregate the amount of national reserve notes so canceled and destroyed.

Whenever there shall be any funds in the Treasury available as surplus revenue, the Secretary of the Treasury may transfer the same to the division of issue and redemption, and if there are no United States notes or Treasury notes in the division of issue and redemption subject to cancellation, the Comptrollers of the Currency shall thereupon withdraw national reserve notes and cancel and destroy the same in the manner and to the amount that they would have canceled United States notes under the provisions of this act. National reserve notes so withdrawn and canceled shall not be reissued as provided in the preceding paragraph: *Provided*, That any decrease in the amount of reserve notes consequent on the withdrawal provided for in this section shall not of itself interfere with the amount of circulating notes to which any banking association would otherwise be entitled.

Reduction  
circulation.

SEC. 21. That any national banking association desiring to reduce the volume of its national-bank notes or currency notes may do so by depositing with the assistant treasurer in charge of the division of issue and redemption a sum in gold coin equal to the amount of the reduction desired, or by redeeming its notes and sending such redeemed notes to the Comptrollers of the Currency, with the request that they be canceled; and the First Comptroller of the Currency may carry to the credit of any national banking association, or reimburse to it, the excess of either the bank-note redemption fund or the bank-note guaranty fund, or both, above the amount required by this act to be held against outstanding circulation.

Clearing-house  
districts.

SEC. 22. That the said Comptrollers of the Currency shall divide the United States into clearing-house districts, and each national banking association organized under this act which shall have taken out for issue any national currency notes shall belong distinctively to some one clearing-house district; and the number of such district shall be plainly and prominently printed upon the said national currency notes issued by it.

Every association located outside of a clearing-house city shall arrange with some national banking association

in the clearing-house city of the district to which it belongs for the current redemption of its national currency notes.

No national banking association shall pay out over its own counter any of the national currency notes issued by national banking associations belonging to clearing-house districts other than its own, unless the association issuing the same shall have established an agency for the redemption of its notes in the clearing-house city of said district.

SEC. 23. That every national banking association shall at all times keep and have on deposit with the division of issue and redemption for the purpose hereinafter specified a sum in gold coin equal to five per centum of its outstanding circulation of national currency notes. The amount so kept on deposit shall constitute a fund to be known as the "guaranty fund," which fund shall be held for the following purpose, and for no other, namely:

Whenever the Comptrollers of the Currency shall have become satisfied by the protest or the waiver and admission specified in section fifty-two hundred and twenty-six, or by the report provided for in section fifty-two hundred and twenty-seven, of the Revised Statutes of the United States, that any association has refused to pay any of its circulating notes on demand, they shall direct the redemption of its national currency notes from the guaranty fund aforesaid, and the redemption in gold coin of the United States from the reserve fund in the division of issue and redemption of the national reserve notes issued to it. After the failure of any national banking association to redeem any of said notes shall have been thus ascertained the bonds deposited by it with the Treasurer of the United States shall be sold as provided by law, and the proceeds of such sale shall be applied first to the redemption of the notes for which they are held, and the balance, if any, shall be paid into the guaranty fund, so far as may be necessary to provide for the final redemption of any other outstanding notes of such bank.

The comptrollers of the currency shall forthwith collect, for the benefit of said guaranty fund, from the assets of the bank and from the stockholders thereof, according to their liability as declared by this act, such sum as, with the bank's balance in the guaranty fund as aforesaid, shall equal the amount of its national currency notes outstanding. And for this purpose the United States shall, on behalf of the guaranty fund, have a paramount lien upon all the assets of the association; and such fund shall be made good out of such assets in preference to any and all other claims whatsoever, except the necessary costs and expenses of administering the same.

All national reserve notes so redeemed shall be canceled and destroyed, and all national bank notes and national currency notes so redeemed shall be held by the Treasury Department in the division of issue and redemption until the conclusion of the proceedings of liquidation of said bank, and shall thereupon be canceled and destroyed.

The provisions of sections fifty-two hundred and twenty-six, fifty-two hundred and twenty-seven, fifty-two hundred

and twenty-eight, fifty-two hundred and twenty-nine, fifty-two hundred and thirty-four, and fifty-two hundred and thirty-seven of the Revised Statutes shall be applicable in the case of the failure of any national banking association to redeem in compliance with law the national reserve notes issued to it.

Assessment in case of deficiency in bank-note guaranty fund.

SEC. 24. That whenever the Comptrollers of the Currency shall ascertain what deficiency, if any, exists between the aggregate collection for the benefit of the guaranty fund in the case of any failed bank and the amount of its national currency notes redeemed and to be redeemed from the said fund, he shall assess such deficiency upon all the national banks in proportion to their national currency notes outstanding at the time of the failure of such bank, said assessment, however, not to exceed in any one year one per centum of the amount of such circulation of the several banking associations, respectively.

Guaranty fund may be invested in obligations of the United States.

SEC. 25. That the Comptrollers of the Currency be, and they are hereby, authorized, in their discretion, to cause to be invested in any interest-bearing obligation of the United States, at a price not greater than a premium of six per centum, any portion of the guaranty fund hereinbefore provided for; and such securities shall be held and disposed of for the benefit of such fund.

Interest to constitute fund supplementary to bank-note guaranty fund.

SEC. 26. That all interest accruing from the investment of any portion of the aforesaid guaranty fund, and all funds received in payment of the taxes on circulation provided for in this act, shall be held in the division of issue and redemption in gold coin or in some interest-bearing obligation of the United States, and shall be supplementary to the guaranty fund, each banking association being credited with its proper share thereof.

Redemption fund.

SEC. 27. That the fund of five per centum of outstanding national bank notes required to be kept on deposit by every national banking association for the current redemption of the circulating notes of such association shall be required to be equal to five per centum of the national reserve notes issued to it and of its national bank notes outstanding, and shall be in gold coin of the United States; and the Comptrollers of the Currency shall have authority to provide for the redemption of said national bank notes and national reserve notes at any or all of the subtreasuries of the United States. Said notes shall be paid in gold coin of the United States, and shall thereupon be returned to the banks to which they were originally issued, subject to the limitations in sections twenty and twenty-three.

Liability of United States for redemption.

SEC. 28. That so much of section three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as reads "And when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption in sums of one thousand dollars, or any multiple thereof, to the Treasurer of the United States, the same shall be redeemed in United States

notes," be amended to read: "And when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption in sums of one thousand dollars, or any multiple thereof, at the Treasury, or at such subtreasuries as may be designated by the Comptrollers of the Currency, the same shall be redeemed in gold coin of the United States. But nothing in this act contained shall be construed to impose upon the United States any liability for the redemption of the notes of any national banking association, beyond the proper application of the proceeds of the bonds and of the redemption and guaranty funds deposited with the division of issue and redemption and the enforcement of the remedies by this act provided."

SEC. 29. That every national banking association shall at all times have on hand, in gold coin of the United States, an amount equal to at least fifty per centum of the cash reserve required by law to be held against deposits: *Provided*, That nothing in this section, except as expressly provided, shall be construed to alter or in any way affect the provisions of existing law governing the maintenance of reserves.

One-half of cash reserves to be held in gold.

No contribution to the guaranty fund provided for in section twenty-three of this act shall be counted by any national banking association as a part of its lawful reserve.

SEC. 30. That when the amount of the national currency notes of any national banking association issued under this act shall, together with its national-bank notes outstanding, exceed eighty per centum of its capital, every such national banking association shall pay, on or before the last day of every month, to the division of issue and redemption a tax imposed at the rate of one-half of one per centum per month upon the average daily amount of said national currency notes in circulation in excess of eighty per centum of its capital stock, and which shall not have been returned to the comptrollers for cancellation or covered by an equal amount of gold coin deposited with the First Comptroller for the retirement of such notes.

Tax on circulation.

SEC. 31. That every national banking association shall, within five days from the first day of each calendar month, make a return, under the oath of its president or cashier, to the Comptrollers of the Currency, in such form as they may prescribe, of the average daily amount of its national-bank notes and national currency notes in circulation during the calendar month next preceding; and every such association shall, before the last day of such calendar month, pay to the division of issue and redemption, in lawful money, the full amount of the tax imposed in section thirty of this act; and whenever any association fails to pay the taxes imposed by this act, the sums due may be collected in the manner provided for the collection of taxes, or said First Comptroller may reserve the amount so due out of the interest as it may become due on any bonds deposited with him by such defaulting association; and while such default continues no further amount of circulating notes shall be issued to such defaulting association.

Reports on circulation and collection of taxes.

Tax on franchise.

SEC. 32. That every national banking association shall pay to the Treasurer of the United States each half year, in the months of January and July, on or before the thirtieth day thereof, a tax of one-eighth of one per centum upon the value of its franchise, as measured by the aggregate amount of its capital, surplus, and undivided profits upon the last day of the calendar month next preceding. But in the case of any national banking association taking out reserve notes this tax shall be remitted, at the rate of one-half of one per centum per annum, on the amount of the reserve notes issued to it and outstanding. The taxes thus paid to the Treasurer of the United States shall be held as a separate fund for paying the expenses of the office of the Comptrollers of the Currency and the expenses of issuing and redeeming the several classes of notes as provided in this act. And the surplus, if any, shall be covered into the Treasury of the United States as a miscellaneous receipt. Sections fifty-two hundred and fourteen, fifty-two hundred and fifteen, fifty-two hundred and sixteen, and fifty-two hundred and seventeen of the Revised Statutes of the United States are hereby repealed. But nothing in this section contained shall be so construed as in any manner to release any national banking association from any liability for taxes or penalties incurred prior to the passage of this act.

Banks going into liquidation.

SEC. 33. That every bank going into liquidation, voluntary or involuntary, shall, prior to the payment of its creditors other than noteholders, and the distribution of any of its assets to its shareholders, deposit with the First Comptroller gold coin of the United States to such an amount that its total deposits of such gold coin shall equal the full amount of its outstanding national currency notes and its assessments provided for by this act.

Capital required.

SEC. 34. That section fifty-one hundred and thirty-eight of the Revised Statutes of the United States be amended to read as follows: "No association shall be organized under this title in a city the population of which exceeds fifty thousand inhabitants with a less capital than two hundred thousand dollars. No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Comptrollers of the Currency, be organized in any place the population of which does not exceed six thousand inhabitants, and that banks with a capital of not less than twenty-five thousand dollars may, with the approval of the Comptrollers of the Currency, be organized in any place the population of which does not exceed three thousand inhabitants."

Branch banks authorized.

SEC. 35. That it shall be lawful for any national banking association to establish branches under such rules and regulations as may be prescribed by the Comptrollers of the Currency.

Bank notes not payable by United States.

SEC. 36. That so much of section fifty-one hundred and eighty-two of the Revised Statutes of the United States as provides that the circulating notes of national banking associations shall be received at par "for all salaries and



other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt and in redemption of the national currency," be, and the same is hereby, repealed.

SEC. 37. That the examination of the affairs of every national banking association authorized by existing laws shall take place at least twice in each calendar year, and as much oftener as the Comptrollers of the Currency shall consider necessary in order to furnish a full and complete knowledge of its condition; and the person making such examination shall have power to call together a quorum of the directors of such association, who shall, under oath, state to such examiner the character and circumstances of such of its loans or discounts as he may designate; and from and after the passage of this act all bank examiners shall receive fixed salaries, the amount whereof shall be determined by the Secretary of the Treasury; but the expense of the examination herein provided for shall be assessed by the Comptrollers of the Currency upon the associations examined. Examination of banks.

SEC. 38. That no association shall hereafter make any loan or grant any gratuity to any examiner of such association. Any association offending against this provision shall be deemed guilty of a misdemeanor, and shall be fined not more than one thousand dollars and a further sum equal to the money so loaned or gratuity so given; and the officer or officers of such association who shall make such loan or grant such gratuity shall be likewise deemed guilty of a misdemeanor, and shall be fined not to exceed five hundred dollars. And any examiner accepting a loan or gratuity from any association examined by him shall be deemed guilty of a misdemeanor, and shall be fined not more than five hundred dollars and a further sum equal to the money so loaned or gratuity given, and shall be forthwith dismissed from the service. Loans or gratuities to examiners forbidden.

SEC. 39. That the Comptrollers of the Currency, in addition to the reports provided for by existing laws, shall have authority to call for such other reports, regular or special, as he may deem advisable; and such reports shall be rendered in such form as the Comptrollers may prescribe; but nothing herein contained shall be construed to require the publication of such additional reports by each association in the manner prescribed for other reports now rendered. Extra reports provided for.

SEC. 40. That after the passage of this act no national banking association shall be granted an extension or renewal of its charter, and no national banking association shall be granted a certificate of organization, unless such association shall have taken out in the manner prescribed herein an amount of national reserve notes equal to at least twenty-five per centum of its capital, subject to the exemptions provided in section nineteen of this act. Reserve notes required on organization.

SEC. 41. That any national banking association heretofore organized may, at any time within one year from the passage of this act, and with the approval of the Comptrol- One year for reorganization.

lers of the Currency, be granted, as herein provided, all the rights and be subject to all the liabilities of national banking associations organized hereunder: *Provided*, That such action on the part of such associations shall be authorized by the consent in writing of shareholders owning not less than two-thirds of the capital stock of the association. Any national banking association now organized which shall not within one year after the passage of this act become a national banking association under the provisions of this act, and which shall not place in the hands of the Treasurer of the United States the sums hereinbefore provided for the redemption and guaranty of its circulating notes, or which shall fail to comply with any other provision of this act, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

State banks  
may reorganize  
under this act.

SEC. 42. That any bank or banking association incorporated by special law of any State, or organized under the general laws of any State, and having a paid-up and unimpaired capital sufficient to entitle it to become a national banking association under the provisions of this act, may, by the consent in writing of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, and with the approval of the Comptrollers of the Currency, become a national bank under this system, under its former name or by any name approved by the Comptrollers. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of law. When the Comptrollers of the Currency have given to any such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges and shall be subject to the same duties, liabilities, and regulations in all respects as shall have been prescribed for associations originally organized as national banking associations under this act.

Extension of  
powers of banks.

SEC. 43. That section fifty-one hundred and thirty-six of the Revised Statutes is hereby amended by inserting after the word "discounting," in the seventh clause relating to incidental powers, the words "buying, selling," so that such portion of said clause will read as follows: "By discounting, buying, selling, and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt."

Modification of  
act for extension  
of corporate ex-  
istence.

SEC. 44. That so much of section nine of an act entitled "An act to enable national banking associations to extend their corporate existence, and for other purposes," approved July twelfth, eighteen hundred and eighty-two, as reads as follows, "And no national bank which makes any deposit of lawful money in order to withdraw its circulating notes shall be entitled to receive any increase of its circulation for the period of six months from the time it made such

deposit of lawful money for the purpose aforesaid: *Provided*, That not more than three millions of dollars of lawful money shall be deposited during any calendar month for this purpose: *And provided*, That the provisions of this section shall not apply to bonds called for redemption by the Secretary of the Treasury, nor to the withdrawal of circulating notes in consequence thereof," be, and the same is hereby, repealed; and the Comptrollers of the Currency are hereby authorized and directed to have prepared and keep on hand, ready for delivery on application, blank notes to such an amount as he may deem advisable for each national banking association having circulation.

SEC. 45. That nothing contained in this act shall be construed to alter or affect any vested rights of property or contract, or any penalties incurred before the taking effect of this act, or any part of it. Vested rights  
preserved.

SEC. 46. That all provisions of law inconsistent with or superseded by any of the provisions of this act be, and the same are hereby, repealed. General re-  
pealer.

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## STRENGTHENING THE PUBLIC CREDIT, ETC.

JUNE 15, 1898.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

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Mr. McCLEARY, from the Committee on Banking and Currency, submitted the following

### REPORT.

[To accompany H. R. 10289.]

The Committee on Banking and Currency, having had under consideration House bill 10289, respectfully report as follows:

The purposes of this bill, as declared in its title, are the strengthening of the public credit, the relief of the United States Treasury, and the amendment of the laws relating to national banking associations. The bill is framed to accomplish the first two of these results without contracting the currency, without the issue of interest-bearing bonds, and without cost to the Treasury of the United States. The protection of the Treasury from demands for gold and from the necessity for issuing bonds is accomplished by imposing upon the national banks the current redemption of the Government notes. The amendment of the national banking laws is intended to afford a test, in a conservative and limited manner, of the system of basing note issues upon the commercial business of the country, with the purpose of affording in the near future a sufficient supply of currency in every part of the country at all seasons of the year, extending credit accommodations, and thereby reducing the rate of interest to borrowers.

The first eleven sections of the bill relate to operations of the Treasury; the remaining sections cover amendments to the national banking act.

#### WORK OF THE TREASURY DIVIDED.

The bill divides the operations of the Treasury. The fiscal operations of collecting revenues and disbursing them for Government expenditures are left as at present, but a new division is created, to be known as the division of issue and redemption. This division is to be under the charge of three comptrollers of the currency, who take the place of the present Comptroller and assistant comptroller. All matters relating to the issue, redemption, and exchange of currency, whether coin, Government notes, or bank notes, are intrusted to the division of issue and redemption. The Secretary of the Treasury is authorized to transfer to it all funds in excess of a cash balance of \$50,000,000 and all gold and silver coin and bullion now held in the Treasury for the purpose of redeeming United States notes, Treasury notes, and certificates. The Secretary of the Treasury is also authorized to transfer

to this division from time to time such surplus revenues as the Treasury may contain, and to issue short-term Treasury certificates, if necessary, for the sole purpose of replenishing the reserve.

The division of issue and redemption is required to redeem United States notes and Treasury notes in gold, to exchange gold coin for silver dollars and silver dollars for gold coin or other lawful money; to redeem silver certificates in silver dollars, and to make other ordinary exchanges of currency. United States notes redeemed in gold are, from time to time, to be canceled. The division must maintain a gold reserve of 25 per cent of the outstanding United States notes and Treasury notes and 5 per cent of the silver dollars which have been coined.

#### THE EXCHANGE OF THE GREENBACKS.

The present outstanding issues of United States notes known as "greenbacks" will cease to be a burden upon the Treasury for redemption in gold, so far as they are exchanged by national banks for national reserve notes.

National reserve notes are a new form of currency provided by the bill, in place of the existing greenbacks. They are not, properly speaking, bank notes. They are Government notes whose current redemption is provided for by the banks. They are legal tender and are intended for circulation as currency or for use in the reserves of the banks in exactly the same manner as the existing greenbacks. National reserve notes are to be issued to any national bank to any amount not exceeding its paid-up capital, upon its surrender to the Treasury of an equal amount of greenbacks.

The United States notes thus received are canceled and destroyed. The banks taking reserve notes are required to contribute to the current redemption fund held in the Treasury 5 per cent of the amount of their reserve notes in gold coin, and to replenish this reserve whenever it is reduced by the redemption of the reserve notes.

The money in circulation is not reduced by any of the preceding provisions. National reserve notes take the place of the greenbacks for which they are exchanged, and gold coin takes the place of greenbacks which are directly redeemed.

Existing national banks are required to take reserve notes to the amount of 25 per cent of their capital, but two privileges are offered the banks in compensation for their assumption of the current redemption of the notes. One of these is the privilege of issuing currency notes upon general assets, as set forth under the next general head. The second privilege is partial remission of the tax of one-fourth of 1 per cent per year levied by the bill upon the capital, surplus, and undivided profits of each bank. The remission thus allowed is at the rate of one-half of 1 per cent per year of the amount of reserve notes issued to the bank.

National reserve notes may be recalled from the banks to which they have been issued by the Secretary of the Treasury in equitable proportions and distributed to new national banks, which are required to pay for them in gold coin after the United States notes cease to be available. The withdrawal of reserve notes does not reduce the limit of currency based upon commercial assets.

#### BANK-NOTE CURRENCY.

National banks having charters under the old law may continue to issue currency as at present. The minimum amount of bonds required

upon the passage of the bill is the same as under existing law—25 per cent of the capital, but not exceeding \$50,000—but banks may issue notes upon all their bond deposits to the par value of the bonds (and to the full amount of their capital), instead of 90 per cent, as at present. Beginning four years after the passage of the act, any bank may withdraw the bonds deposited to secure circulation at the rate of 25 per cent of the required deposits per year, and may withdraw those in excess of the minimum requirement at any time.

The privilege of issuing currency based upon commercial assets, without the deposit of United States bonds, is granted to national banks to the amount of 40 per cent of their paid-up capital, but only upon condition that notes secured by bonds and national reserve notes are taken in equal amounts. Thus a bank organized under this bill having a capital of \$100,000 is required to take out \$25,000 in national reserve notes and to have on deposit in the Treasury \$25,000 of United States bonds, against which it may issue \$25,000 in national bank notes. It may also issue \$25,000 additional in such notes based upon commercial assets, and may increase such issues if it increases also its bond deposits and its holdings of reserve notes in equal proportions. This process may be continued up to the point where the amount of notes secured by bonds, the amount of notes not thus secured, and the amount of national reserve notes are each equal to 40 per cent of the paid-up capital, making an aggregate of \$80,000 in bank notes and \$40,000 in reserve notes.

When circulation is issued in excess of 80 per cent of the paid-up capital, exclusive of issues of reserve notes, the excess is liable to a tax of one-half of 1 per cent monthly. But bond-based notes may be issued to the full amount of the capital without any tax on them.

All paper money except silver certificates shall be in denominations of \$10 and higher. Silver certificates issued by the Treasury shall be in denominations of \$1, \$2, and \$5 only.

#### THE REDEMPTION OF NOTES.

The burden of the current redemption of paper currency rests upon the banks. They are required to redeem their reserve notes over their own counters, and to maintain in the Treasury a 5-per-cent gold fund for current redemption of the notes in gold. The reserve notes are guaranteed by the Government to be ultimately redeemed in gold from its own resources upon failure or liquidation of the bank to which they may have been issued. Reserve notes redeemed by the Government may, at its option, be reissued to new banks.

The current redemption of currency notes not secured by United States bonds may be provided for through clearing-house districts under regulations prescribed by the Comptrollers of the Currency.

The currency notes are redeemed, in case of failure of the issuing bank to redeem them, from a gold guaranty fund in the custody of the Secretary of the Treasury, known as the bank-note guaranty fund, which is made up by each bank which takes out circulation upon its commercial assets contributing in gold 5 per cent of its asset circulation. Upon the failure of a bank, its notes shall be immediately redeemed from this fund and the fund reimbursed from the assets of the failed bank. Bank notes form a first lien upon the assets and have behind them also the individual liability of the stockholders for assessment up to the amount of their stock. Should these sources fail to fully reimburse the fund, the Treasury may make an assessment

upon the national banks issuing asset circulation to reimburse it, but these assessments shall not in any one year exceed 1 per cent of the asset circulation.

#### MISCELLANEOUS PROVISIONS.

Existing national banks may continue to do business under their present charters upon acceptance of the new law, but must comply with the requirement for taking out 25 per cent of their capital in reserve notes.

Branch banks may be established in the discretion of the Secretary of the Treasury.

Stringent regulations are provided for the examination and conduct of national banks.

The reserve requirements in relation to banks are the same as under the present law, except that 50 per cent of the reserves required to be kept actually in the bank must be in gold.

Banks are required to pay a tax of one-quarter of one per cent per year upon their capital, surplus, and undivided profits. The existing tax of 1 per cent per year upon circulation is repealed.

#### NECESSITY FOR PROTECTING THE TREASURY.

The necessity of so protecting the Treasury as to strengthen the public credit ought not to be a subject of dispute among those familiar with the events of the last five years. The essential purpose of the bill in this respect is to relieve the Treasury from the burden of the constant redemption of Government paper money and to obviate the necessity of selling interest-bearing bonds running for a long term in order to obtain gold for the continued and repeated redemption of the notes.

By reference to Tables 2 and 3 in the appendix to this report, it will be seen that the redemption of United States notes during the years 1892 to 1897, inclusive, amounted to \$455,025,847, or more than \$91,000,000 a year. This annual average redemption amounted to almost the total of the gold redemption fund, thus requiring practically a complete replacement of the fund each year. This necessity resulted in the issue of long-term interest-bearing bonds, amounting to more than \$262,000,000.

It does not matter what view is taken of the responsibility for the condition in which the Treasury has been found during the last five years. If any political organization or any error of administration at the Treasury Department is responsible for these events, it only emphasizes the necessity of placing our currency system beyond the reach of political accidents. Our financial system should be such that no Administration, without radical change of law, should have the power to involve the commercial business of the country in disaster because the fiscal and banking operations of the Treasury might not be wisely conducted. This is one of the essential purposes of the bill reported by your committee—to separate the operations of the fiscal service of the Government from the operations of commercial banking.

There can be no question of the benefits to the Treasury and to the public credit in relieving the Treasury of the constant necessity of redeeming demand obligations. Such objections as have been made to methods heretofore proposed for terminating these conditions are, we believe, obviated by the plan herewith reported.

Your committee propose to relieve the Treasury absolutely of the obligation of finding gold for the redemption of a very large proportion of the



legal-tender notes, and we believe that the small amount of such notes left outstanding will be given such enhanced credit by the operation of this bill that they will never again become a menace to the public credit and never bring in question the ability of the United States to fulfill the mandate of the act of November 1, 1893—"the maintenance of the parity in value of the coins of the two metals, and the equal power of every dollar at all times in the markets and in the payment of debts."

#### EFFECTS OF DOUBT ABOUT THE PARITY.

The importance of maintaining unquestioned and unimpaired the parity of all our forms of money is such that it involves almost every transaction of life, and peculiarly the volume of business, the safety of investments, the value of pensions and insurance policies, and the legitimate profits of agricultural, industrial, and mercantile enterprises. From 1893 to 1896 the United States, by heroic efforts, succeeded in preventing any depreciation of their paper currency, but the mere suspicion of the possibility that such a depreciation might occur was among the potent causes of the shrinkage of values and the paralysis of industry.

Some conception of the effects of this uncertainty may be formed from the fact that the transactions of the New York clearing house shrunk from \$36,279,905,236 for the year ending October 1, 1892, to \$24,230,145,368 for the year ending October 1, 1894. The clearings throughout the leading cities of the country showed a shrinkage in the same period from \$61,017,839,067 to \$45,028,496,746. Figures like these measure, in some slight degree, the reduction in the volume of business, in the earnings of the people, and in the employment for labor. There can be no doubt, also, that the withdrawal of foreign capital as the result of like uncertainty regarding the maintenance of the parity of all our forms of money added to the tendency to panic by the persistent withdrawal of gold, and diminished the productive resources of the country.

#### HOW THE PARITY OF COINS IS MAINTAINED.

It is the permanent policy of this nation that the making of coins shall be vested exclusively in the Government. The Government makes the coins out of several metals, each designed to serve the people in the special way for which it is best fitted. The Government has declared itself in duty bound to preserve the parity of its coins.

How is the parity maintained? The value of the silver in a silver dollar is much less than the value of the gold in a gold dollar, yet a silver dollar will buy as much as a gold dollar will buy. Why?

There is a certain amount of money of small denomination absolutely needed by the people of the country for their ordinary retail transactions. Silver serves this purpose admirably. It has been found that so long as the limit is not exceeded there is comparatively little trouble in maintaining at a parity with gold the amount of silver legitimately demanded by business. In order that the business demands for silver may be fully met and satisfied, and yet that no more shall be forced into the channels of trade than is needed, our Government has adopted the following plan:

1. The coinage of silver is on Government account; that is, the Government controls the volume of the silver coinage.
2. In making payments for materials or services, and in the payment of obligations, it pays out as much silver as is desired. It also holds

itself ready to pay out silver in exchange for other forms of money. In these ways it gets silver into circulation, meeting in some measure the legitimate demands for such money.

3. The Government stands ready to receive silver at any time as the equivalent of gold in payments due to it. In this way, by indirect redemption in gold, the silver is kept in the minds of the people as the equivalent of gold, and at the same time a reservoir is provided for any surplus which the channels of trade may desire to rid themselves of. And, as has more than once been announced by the Treasury Department, and as provided in the bill herewith reported, the Government will, if necessary, give gold coin in exchange for silver coin.

The method by which the Government redeems its pledge to maintain the parity of the metals is, then, first, by so regulating the volume of silver coin in circulation as to meet as nearly as possible the demands of business, which are quite constant; and, second, by making silver coin indirectly or directly interchangeable with gold at the Treasury.

Recognizing it as part of the permanent policy of this country that the Government shall maintain the parity of its coins, the bill reported by your committee has sought to render the performance of this duty as safe and easy as possible. The bill provides that hereafter no United States note or Treasury note of 1890 or national-bank note shall be issued in denominations of less than \$10, and that silver certificates shall be of the denominations of \$1, \$2, and \$5. This arrangement will give to silver, in the form of coin and certificates, practically the whole field for use as the money of retail trade, thus making the demand for silver large and steady. By reference to Table 8 in the appendix the present actual demand for \$1, \$2, and \$5 bills can be seen. Careful computations show that by this arrangement nearly 95 per cent of all the silver coin now in the country may be given employment in the regular channels of trade. It is expected, therefore, that comparatively little silver will find its way to the Treasury, either on payment of dues or to be exchanged for gold, and that public dues will be paid almost entirely in gold. Thus the burden of the Government in maintaining the parity will be reduced to the minimum, while its ability to do so will be raised to the maximum.

#### THE DIVISION OF ISSUE AND REDEMPTION.

The gold reserve, held for the purpose of maintaining the parity of our various forms of Government coin and paper, has always been held in the general cash of the Treasury. This arrangement has long been deplored by thoughtful people, because it leaves this fund, a depletion of which would entail such direful consequences on the country, to the varying fortunes of revenue receipts. This fund was provided for a specific purpose, and should be held apart from the general funds of the Treasury. Then if there should be any trouble we shall know how to locate and correct it. Moreover, it is expected that under the operations of this bill the Treasury will be relieved from the burden of the current redemption of its demand notes, so that the reserve fund will, before long, be materially reduced. With the view, therefore, of separating the financial operations of the Government from its fiscal operations, the bill provides for a new division in the Treasury Department, to be known as the division of issue and redemption. To this division is assigned the duty of acting as custodian of the funds for maintaining coin parity and of the redemption and guaranty funds of the national banks, and by it all exchanges called for to accommodate the people in securing such form of money as will best serve their legitimate purposes, so far as this duty continues with the Government, shall be

made. In order that the exceedingly important work of this division, including the supervision of all the national banks, may be done most efficiently, the bill provides for a board of three comptrollers, with long terms and with the appointments so arranged as to secure skilled and experienced supervision and control.

#### THE DISADVANTAGES OF GOVERNMENT BANKING.

The issue of government paper to circulate as money is not approved by the experience of any civilized state. It is not necessary for your committee to refer to the notorious incidents of the French assignats, nor the discredited issues of our own country during the war of the Revolution. Cases less conspicuous are those of the Austro-Hungarian monarchy, which resorted to this method of finance in 1847 and gave forced legal-tender character to its treasury issues. The result was the perpetuation of a premium upon gold, which has not yet been terminated. The experience of the South American countries, if it should be presented by your committee in detail, would afford even more striking proof of the failure of governments to maintain their legal-tender paper currency at parity with the metallic standard.

The history of the world hardly affords an instance of the successful maintenance of government paper at parity with gold. The United States from 1879 to 1893 afforded the most successful illustration of this experiment, but this period was one of prosperity seldom impaired and of a rigid limitation of the note issues. When this limitation was removed by the act of July 14, 1890, providing for the issue of additional legal-tender Government notes for the purchase of silver bullion, the usual effects of a government paper currency were not long in showing themselves. Gold was largely expelled from circulation; doubt and distrust seized the markets, and the great loss inflicted upon the exchanges and upon the earnings of capital and labor foreshadowed in some slight degree the disaster which would have ensued with the actual suspension of the redemption of Government notes in gold.

Among the reasons that may be given against the issuance of Government demand notes to circulate as money are the following:

1. The original issue of such notes is always due to an empty or embarrassed national treasury. As a necessary consequence, the notes always depreciate in value, driving coin out of use and becoming themselves the everyday standard of value. This results in a seriously fluctuating standard,\* demoralizing to all legitimate business and serving only the speculative and gambling elements, who find their profits in rapid fluctuations in prices.

2. The falling away from the coin standard may be only temporary. In that case the period of depreciation works a hardship on creditors, while the period of return to the coin standard works a hardship on those who have gone into debt during the existence of the paper standard.

3. The gathering of a redemption fund in coin for the purpose of bringing the paper up to the coin standard must be through increased taxation or through the issuance of interest bearing time obligations. This fact, together with the fact above referred to that the process of return to the specie basis works a hardship on debtors, always makes such return slow and difficult. In the nature of the case the condition of demoralization tends to perpetuate itself.

4. It is exceedingly difficult to hold Government currency up to the coin standard for any length of time, even after it has been brought

\* For the variations in the value of the greenback before 1879, see Table 7 in the Appendix.

back to that standard. The maintenance of the necessary coin reserve is expensive. Its maintenance, too, depends in this country largely upon the views of the Executive and is always subject to the fortunes of revenue receipts. And in the case of our Government demand notes "redemption does not redeem." The notes are continually reissued. Moreover, the Government reserve commands few of the gains and is subject to all the losses of the ebb and flow of coin and bullion in international trade. So long as the Government has out notes receivable for customs and other public dues no one is bound to pay gold to the Treasury; so the flow of gold into the country to settle trade balances does not necessarily help the Treasury reserve. But whenever an adverse balance of trade requires the exportation of gold, the Government note becomes the efficient instrument for depleting the reserve.

5. The issuance of Government demand notes is continually liable to abuse. The first issue is always deprecated, even by its advocates, their only justification for it being its apparent necessity. Promise is always made, too, that the first issue will be the only one. Our first issue of \$150,000,000 of "legal tenders" in 1862 was thus justified, and the promise was made that this limit would not be exceeded; but a second issue to the same amount soon followed, and this was ere long followed by a third; and now there are those who advocate a new issue of \$150,000,000. Disaster in such a case seems to necessitate further issues, while, on the other hand, temporary success is used to justify them.

The burden of maintaining the parity of all our paper currency with gold coin should rest upon the banks of the country, whose facilities are natural, whose resources comprise in liquid form practically all the products of American labor, and whose relation to the public will compel them to maintain the parity of any notes they may issue with the standard of the country or go into bankruptcy.

The result would be that commerce and business of every kind would not be subjected to constant and serious shocks, as they are to-day, whenever there is either a fear that the Government may be unable to maintain the parity or a suspicion that the party in power, for political reasons, will not do so.

But even if Government paper currency were not open to the above objections, even if it could be made absolutely safe, the issuance of Government demand notes would not be the wise way of securing the necessary paper currency of the country. Among the reasons for this conclusion, two readily present themselves.

In the first place, the Government can not regulate the volume of its notes to meet properly the requirements of the country's business. The officers of the Government, chosen for political and not for business reasons, having functions that are civil and not commercial, can not know how much currency is needed. Moreover, the currency needs of the country vary greatly with the seasons and the localities, with the volume of business and the habits of people. A fixed amount is necessarily a wrong amount.

In the second place, the Government lacks the facilities for distributing its notes where they are needed for business purposes. It pays out money only for materials or for services. In other words, the needs of the Government and not the needs of business determine the time, place, and amount of its outlay.

As has been well said—

The Government bank has no depositors, and can not get its notes into circulation through depositors as business needs them. It has no automatic method of getting

information as to how much money is needed by trade, and could not act upon it if it had. The Secretary of the Treasury, ostensible manager of the bank, has his hands tied. The Government currency once out, stays out. It drifts away from the towns of the West and South to the great cities of the East, and stays there to breed speculation from unnatural plenty, while the farmers and traders of the prairies and cotton fields are suffering from contraction.—(W. C. Cornwell.)

The Government, not being in trade, being neither buyer nor seller, producing and owning none of the properties which enter into trade, and having no property or resources whatever except such as it takes from its citizens through taxation for its expenses of administration of whatever character, has no natural relation to the creation of a credit currency except to provide proper and effective legal remedies to safeguard it, and is not the proper party to issue it. Such an act is wholly foreign to its political functions, of which commercial operations are no part in theory or fact. (Jacob L. Greene.)

#### A DANGEROUS AND EXPENSIVE METHOD OF BORROWING.

It has thus been shown that the Government was not designed, nor is it in its nature fitted, to issue the paper currency of the country. It is now in order to show that the issue of demand notes by the Government is not a prudent or an economical method of borrowing.

In the first place, it is dangerous. The Government is a great corporation. Like those of any other body, its business operations are subject to the inexorable laws of trade. Its note is no more money than the note of any other responsible party. It is a promise to pay on demand. To keep the note good the promise must be kept. Being receivable for public dues, many of its notes are redeemed in that way. So long as the commercial skies are clear and public credit is good few of the notes will be presented for redemption in coin. As will be seen by Table 1 in the appendix to this report, the coin redemption of United States notes prior to 1892 was comparatively small. Even the gold required for export was furnished almost entirely by the banks. But from 1892 to 1897 the coin redemptions of the United States notes and Treasury notes were enormous. They exceeded even the great demand for gold for export, thus revealing the fact that the demands for redemption by our own people were very great. This enormous flood of demand almost swept away the fabric of our credit, both public and private, and was overcome only by the most herculean efforts. Although our skies are again clear, prudence dictates that we recognize that this danger is inherent in the very nature of Government demand obligations, and duty to the public requires that Congress take steps to prevent a recurrence of this danger to the Government and its citizens.

No prudent business man allows himself to issue a demand obligation unless he has on hand property which is immediately convertible into cash. And even then he will ordinarily prefer to pay a reasonable sum in the way of interest for the privilege of himself fixing the time for the payment of the principal. He knows that with demand obligations out he is liable to be called upon for payment at the very time when he is least able to make it, and that thereby he may either be driven into insolvency or be required to make such sacrifices of property as would far more than counterbalance any saving in interest.

In the second place, as the Government has found, the issue by it of demand notes, nominally noninterest bearing, is a very expensive form of loan. What are some of the items of this expense?

1. A small one is the cost of the paper, printing, bookkeeping, and handling the notes, which is about \$1,000,000 a year.

2. A reserve for their redemption must be maintained. The cost of carrying this sum each year amounts to nearly one-half of the interest saved on the notes.

3. From first to last, interest-bearing bonds amounting to \$11,000,000 more than the face of the notes have been sold for the purpose of securing and maintaining the fund needed to keep these notes at par. So that in fact their existence necessitates the payment of annual interest on a sum greater than their face.

4. In the nature of the case, sales of bonds to replenish the reserve must be made at the very time most disadvantageous to the Government. The demand for redemption is due to a loss of credit by the Government. This fact puts it to great loss in the sale of its bonds. For example, in the years 1893-1895 it was necessary for the Government to sell bonds to the amount of \$262,000,000. They sold for \$293,400,000. But had the credit of the Government not been impaired, had it been such as it was in 1890, for example, they would have sold for \$335,000,000. Here, then, was a direct loss of over \$40,000,000.

5. The existence of a large mass of demand obligations, which may come pouring in for payment at any time, hurts the credit of their issuer. To this rule the Government is no exception. The extra interest which the United States Government has had to pay for many years in consequence of the existence of its demand obligations has amounted to more than twice the face of the notes themselves.

6. Careful estimates show that the cost of the civil war was greater by from \$600,000,000 to \$900,000,000 by reason of their issue than it would have been if fought out on a specie basis, the purchasing power of the notes varying with their volume and varying even more with the varying fortunes of the war and of politics.

The total expenditures of the four years was \$3,352,380,410, of which it is safe to say \$2,500,000,000 consisted of purchases in the open market, when the greenback dollar procured (on the average) only 66 cents worth of property. In other words, we obligated ourselves for \$2,500,000,000, and got \$1,630,000,000 in actual value. The difference, \$870,000,000, is the unnecessary cost to the taxpayer caused by the use of a depreciated currency.\*

These considerations amply warrant the crisp statement made in a recent speech by the distinguished Senator from Minnesota, Hon. Knute Nelson, when, speaking of the issue of these notes, he said: "Of all our war loans, from first to last, it was no doubt the most expensive. Its justification was that it filled a gap that could not have been easily supplied by a time loan."

#### A LOAN BY THE BANKS TO THE GOVERNMENT.

In dealing with the existing legal-tender notes of the Government, your committee have endeavored to adopt a system which would be subject to none of the criticism made against the issue of interest-bearing bonds or the taxation of the people for the payment of this demand debt. While the arguments are strong for the adoption of one of these methods of paying back to the creditors of the United States the money thus borrowed for the preservation of the Union, the system adopted is such as to continue to the Government all the benefits of the loan without any of the disadvantages of its character as a demand obligation. The proposed bill places upon the banks the burden of providing for the current redemption of the greenbacks.

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\*Horace White. A full statement of the question, carefully itemized, is given by W. C. Mitchell, in an article entitled "Greenbacks and the cost of the civil war," published in the Journal of Political Economy, University of Chicago, for March, 1897. And in the same journal for March, 1898, Mr. Mitchell has a very valuable article on "The value of the greenback in the civil war," in which he accounts for its variations in value.

The form of the proposition submitted by your committee makes that portion of the demand debt which is not now covered by gold in the Treasury a loan by the banks to the Government. This loan is made without interest and without any compensation to the banks except what is afforded them in getting their franchise as national banks and thus securing the power to issue a banking currency, which is granted in other sections of the bill. There is no other profit or return to the banks in thus carrying the nation's debt, except a small remission of the new franchise tax.

This policy is not without precedent in that of European governments, but the privileges granted by those governments are enormously greater, because they are granted to a single bank having a monopoly of all the note issues of the country. The Bank of France, for instance, makes to the Government a loan without interest, which has just been increased to 180,000,000 francs, or about \$35,000,000; but this loan is substantially offset by the deposits of the treasury with the bank, which amounted on January 7, 1898, to 212,268,560 francs, or 32,000,000 francs in excess of the entire sum advanced to the Government. The Government of Austria-Hungary has an advance from the Austro-Hungarian Bank amounting to about 75,000,000 florins, or \$30,000,000; but this is in process of annual reduction by the amount of the profits of the bank, charged as a Government tax, but actually employed for the reduction of the loan. These are illustrations of several similar cases, but they serve to show that no country imposes so heavy a burden upon its banks as this bill provides, unless under the pressure of dire necessity, as in the cases of the Governments of Spain, Portugal, and Italy.

The banks are required to redeem this debt of the Government now assumed by them upon precisely the same terms as the current redemption of their own notes while they are conducting a solvent banking business. It is only when, by the refusal to pay such notes, they become insolvent, that the Government recognizes again its demand debt and reassumes it for the complete protection of the holder of the note and for the benefit of the creditors of the bank by leaving the remaining assets unimpaired for the settlement of their just claims. The form of note thus assumed by the bank with the final redemption guaranteed by the Government combines the strongest of all resources for its ultimate payment. The note which it is proposed to issue under this bill in lieu of the Government notes is called the national-reserve note, a designation which may be taken to imply at once that it has behind it not only the banking resources of the issuing bank, but the reserve strength of the National Government, and also that it is peculiarly available for money reserves of all kinds. It is, moreover, a legal-tender note, whose parity with gold is assured so long as the banks maintain the parity of their own notes, and for whose parity the Government is also responsible, if it is conceivable that the Government should maintain specie payments while the banks were unable to do so.

#### NO CONTRACTION OF THE CURRENCY.

While the bill thus greatly lightens the burden of the Treasury under any conceivable conditions, there will not be any contraction of the existing circulation. The gold now kept in the gold reserve of the Treasury might be paid out in the redemption and cancellation of legal-tender notes, but this operation would simply substitute gold for paper in the circulation, and would not in any degree diminish the legal-tender

money in the hands of the people. A legal-tender note, under the bill proposed by your committee, might cease to be a menace to the Treasury either by exchange for gold and final cancellation, by the assumption of its current redemption by the banks, or by the enhanced value which it would obtain from the fact that quantity was diminished; but the legal-tender currency in the hands of the people would not be reduced by either of these operations.

Your committee believe that the system of dealing with the Government notes provided in this bill removes every possible objection which has heretofore been made to relieving the Treasury of their redemption, except such objections as may be based upon the desire that the Government shall issue an unlimited volume of forced legal-tender paper which is not redeemable in coin or capable of being maintained at any fixed value.

#### THE BANKS COMPELLED TO PROVIDE GOLD.

The purpose and effect of the proposed bill is to throw upon the national banks the entire burden of finding gold for the notes of the country. There is no doubt of their ability to do this. Even if at any time the banks should all suspend specie payment, the result would not be so disastrous as would even the threat of such a thing as specie suspension by the Government under existing arrangements. In the first place, the failure of any bank or set of banks to pay their obligations would not involve the standard; and in the second place, the consequent depreciation of the notes would not be so great nor would the term of suspension be so long as in the case of Government suspension.

But there is no doubt of the ability of the banks to maintain specie payments. In the first place, they now hold in their vaults a vast quantity of gold—\$240,000,000 in round numbers—much more than is required by the provisions of the bill. In the second place, whenever greenbacks are presented for redemption the gold proceeds will soon go to the bank vaults for safe-keeping. In the third place, the bulk of the vast gold product of the country will naturally, for the same reason, find its way to the banks as the place of deposit. In the fourth place, the banks can, through interest rates in seaboard cities, in large measure, regulate the flow of gold in international trade, providing for all legitimate export demands, but so protecting our reserves as to maintain our national credit. England and France and Germany are without gold mines, yet they have no lack of gold. And in the fifth place, if necessary, the banks can borrow gold. Thus the banks have every resource that the Government has, and through their business relations possess the means of protecting themselves and the business world that the Government has not.

The system proposed by your committee provides at the same time an adequate method of obtaining from the banks gold legitimately needed for export without exposing the country or the United States Treasury to the alarm and convulsions which have attended gold exports during the last five years. The banks are required by the bill to maintain the 5 per cent current redemption fund in gold. Redemption agencies are authorized to be established at the various subtreasuries and at other places, and such an agency would undoubtedly be established by the Comptrollers of the Currency at New York.

The actual process of obtaining gold for export would be that any strong bank patronized by exporters would turn over the gold from its own vaults or from its reserves in the New York clearing house. It



is impossible to evade this obligation. In case of an effort to evade it the process would be that a bank would deliver its own notes to a depositor, making a draft upon his account. He would be under no obligation to accept them, but if he did accept them, he could at once present them for redemption in gold or in reserve notes. The bank, still wishing to evade the payment of gold, might then tender him reserve notes issued either by itself or by other banks. But these reserve notes would be redeemable out of the gold-redemption fund maintained by the banks, and it would only require their presentation at the subtreasury to secure their redemption from this fund.

The banks whose reserve notes were thus presented would then be called upon by the Comptroller to make good the deficiency in their coin in the redemption fund and the burden of obtaining the gold would fall directly upon them. This being the case, it would be immaterial to the people of the United States whether one bank by paying its own notes or reserve notes shifted the burden of maintaining the redemption fund upon another bank. The banks in any case would bear the whole burden and would be compelled to so adjust their loans as to secure favorable exchanges, prevent the undue export of gold, and maintain the credit of the business community and of the Government.

#### THE ORIGIN OF MONEY.

All trade is essentially barter—the exchange of goods for goods. In primitive society this exchange was direct, each person parting with that of which he had a surplus and taking in return that of which he had need. But this direct exchange presupposed the meeting of two persons each of whom had a surplus of just what the other wanted in kind and quantity. This double coincidence was not always easy to find; so difficult, in fact, as to discourage all effort at exchange, or to make the search for it extremely wasteful of time and energy.

By and by men observed that there was some article that was in such general demand that in exchange for it one could, at any time, get any other thing that he might desire. This object of general desire gradually became the medium through which exchanges were effected. A person having a surplus of anything, even if he had no unsupplied want, would take this medium of exchange, knowing that for it he could at any time supply his wants.

The invention of this medium of exchange was a great step onward. It economized the time and energy of the people to such an extent that it enabled them with the same effort to produce many more goods, made it easier to supply their wants, and thus materially bettered the condition of all. And from that day to this every economy in methods of exchange (like economies in manufacture) has more and more placed the good things of earth within the reach of the mass of the people, and thus elevated the standard of living.

The things exchanged possessed value. The common medium of exchange came to be the thing with whose value the value of every other commodity was compared; that is, it became the standard of value. In other words, the same commodity served both as the standard of value and as the medium of exchange or currency.

In the various stages of social advancement different commodities, each suited to the times, were used as money. Thus, in the hunting stage, skins of animals were so used; in the pastoral stage, cattle; in the agricultural stage, corn, tobacco, and tea. Later came the use of metals, iron and copper, silver and gold. In each stage of advancement

progress was made by discarding the less convenient and desirable form of money for that which better served the purpose. Gradually, too, progress was made in the methods of using money. When first used as money the metals passed by weight. (As a memento of that time we have the word *expend*, which means literally to *weigh out*.) Later, for the purpose of saving the trouble of weighing, and to remove the risk of fraud through the misuse of alloys, coining was invented.

#### SOME FUNDAMENTAL PRINCIPLES.

The purpose of your committee in reciting the foregoing is simply to illustrate a few principles important to be borne in mind in this connection.

1. There is a marked distinction between the use of money as a standard and its use as a medium of exchange or currency. In the former case it is used to compare or measure values; in the second it is used to transfer them. There is the same distinction to be made in these two uses of money that there is between the use of the scales for weighing a ton of coal and the use of the wagon in which the coal is delivered to a customer. Or, to use another illustration, and in some respects a better one, there is the same distinction between the use of money as a standard of value and its use as a medium of exchange that there is in the use of a bushel basket to measure grain and the use of that basket to carry the grain to the manger. Here the same thing may be used for either purpose. So it was originally with money. But we have learned that while there can be only one standard of size for a bushel we may carry bushels of grain in baskets or in sacks or wagon boxes. So it is with money. While in the nature of things there can be only one standard of value, the forms of money as a medium of exchange are many, including gold, silver, nickel, copper, and paper.

2. A farmer would not think of keeping on hand as many standard bushel measures as he had bushels of grain to measure. He needs only enough to serve as an occasional test of correctness. And then for ordinary purposes he will suit his convenience by using sacks or other things. So with money. A nation would find it wasteful to have on hand a sufficient amount of standard money to effect all of its exchanges. It finds it more economical to keep on hand enough of the standards of value to afford from time to time the proper tests of the instruments of exchange, and then suit its convenience in the forms of its currency.

3. Governments adopt, they do not originate, standards. As has been seen by the brief sketch of the origin of money, its form was a matter of selection by those having exchanges to make, that this selection varied with the circumstances, and that the idea of a standard came from custom without any edict of the governing power. So it has always been; so it will always be. The edict of the government follows, it does not precede, the common individual judgment. When it fails to do so its decrees are futile.

4. The purpose of coinage is simply to make safe and convenient what would otherwise be unsafe and inconvenient. Coinage is not necessarily and probably was not originally a function of government. The word *dollar* is itself a memento of coinage by private individuals. The first thalers or dollars were made at a private mint in Joachimsthal, in Bohemia, in 1581. In those troublous times princes and kings were playing fast and loose with their coinage, were putting into the coins less than the weight of metal certified by the stamp, and compelling people by legal-tender edicts to accept them as of full weight. The great

merit of the Joachimsthal mint was that the pieces or coins made by it were of uniform goodness. Thus they attained great popularity and wide use, and the thaler came to be known and prized all over Europe. In the early days of California, when it was more inaccessible than the uttermost part of the earth is now, private coinage was general. Individuals and companies refined gold and ran it into pieces of uniform size, stamping on each piece its weight, the pieces thus made being voluntarily and freely used as money. That is the essence of coining. Putting the metal into the form of disks or bars neither adds to nor subtracts from its value; it only adds to the convenience of using the metal. The only reason why, by common consent and then by constitutional and legal provision, we have the Government do the coining and forbid anyone making coins resembling those made by the Government, is to guarantee uniformity of goodness, thereby facilitating trade. The fact that the Government certifies the weight and fineness of the metal contained in the disk does not add anything to its value, except as putting the metal into pieces of convenient size and shape renders it easier and safer to use, and it thereby passes more promptly from hand to hand. Even those who know nothing of metallurgy or assaying feel safe in accepting the metal whose weight is certified by one known and trusted by all.

5. Every proper and safe method of facilitating exchanges, every improvement made, is in the interest of all, contributes to the public welfare.

#### ORIGIN AND PURPOSE OF BANKS.

It is risky to keep money in one's house; the money may be stolen. It is also risky to carry money around; it may get lost. For each person to build a strong room for the safe-keeping of his money would be too expensive. But by cooperation many may do cheaply what each alone would find a burden. So a number of traders united in erecting a building with a strong room in it. This they put in charge of one or more trusty men, and to it each evening they brought the receipts of the day. Such was undoubtedly the origin of banks. They were at first simply places for the deposit of money for safe-keeping.

After a while some bright merchant discovered that he need not go to the bank to get the money that he might desire to pay out. He could save time and trouble by giving the payee an order (or check) on the bank for the money. With this check the payee could get the money at the bank. Or, if he did not need the money for immediate use, he could deposit the check at the bank and get the amount transferred from the merchant's credit to his own, thus acquiring the right to order the payment of money to some other person or persons; or he could transfer the check itself to someone else with whom he had dealings. In any of these cases the check served the purpose of money; and inasmuch as it saved the time of counting and the trouble and risk of handling the actual money, the check became and still remains not only a great convenience but also a great economizer.

In course of time it was observed that only a part of those who received checks demanded the money on them, and that, therefore, by keeping on hand a quarter or less of the money deposited all the checks could be promptly paid on presentation. The managers of the bank therefore authorized the man in charge of the bank, in whose honesty and good judgment they had confidence, to lend out to responsible persons a part of the deposits. Thus arose banks of loan and discount.

Some of those who wished to borrow did not care to carry coin

about, but were going among strangers who might not be willing to take their checks. Such persons the bank could accommodate by giving them the promises of the bank to pay the money on demand. The bank being widely known and largely trusted, its promises (or bank notes) passed readily from hand to hand, performing admirably, by the free choice of those interested, all the work of money as a medium of exchange. Thus arose banks of issue.

It is vitally important at this point that it be remembered that a large fraction of all deposits are not deposits of money. In this fact lies the most valuable of all the many services rendered to the public by banks. Not only does a bank gather up the scattered sums of money in the community, furnishing their owners with a safe place of deposit, and securing to the community the use of money that would otherwise lie idle, but under a proper banking system the bank can monetize every product of hand and brain, facilitating and cheapening both production and exchange, and thus bettering the condition of every honest, industrious, and prudent man in the community. Suppose, for example, that a manufacturer of wagons has used up his capital erecting his factory and buying materials. He needs money to employ men to make the wagons. He goes to the bank; the cashier knows him to be honest and capable; knows that he wants the money to produce something of use to the community, something which the people will need and buy; sees that he has the plant and material; the banker lends him the money, thus giving him the means of making the product, furnishing useful employment to perhaps hundreds of people. The manufacturer deposits his note, getting in return a credit on the books of the bank, against which he can check for the payment of his men, the shipment of his goods, etc. As pay for the goods begins to come in he deposits the checks, drafts, or money that he receives. In this way he accumulates means to pay his note when it becomes due. The original deposit was his note—not money, but the representative of his raw material to be wrought by the skill of himself and his men into articles of use for the community. On the basis of property owned and skill possessed, the manufacturer secured the funds with which to work the transformation. This monetizing of products, this vitalizing of energy, is the preeminent service rendered by the bank.

#### BANK CHECKS AND BANK NOTES.

Bank checks and drafts and bank notes constitute by far the most important part of our currency. On January 1, 1898, the total volume of our circulation was as follows:

Gold coin and certificates .....	\$584, 126, 049
Silver coin and certificates .....	503, 906, 973
Government demand notes .....	409, 239, 863
Total Government currency .....	<u>1, 497, 272, 885</u>
National-bank notes .....	223, 827, 755
Deposits subject to check * .....	<u>3, 210, 709, 758</u>
Total bank currency .....	<u>3, 434, 563, 513</u>

The volume of bank currency, therefore, was more than double that of the non-bank currency. Moreover, it did a vastly larger proportion of the actual work of commerce. Careful investigations have been made

\* In national, state, and private banks. But this does not include deposits in savings banks, or any other deposits not subject to checks.

from time to time by the Comptroller of the Currency to determine the actual usefulness as currency of our various forms of money. The last investigation was made on July 1, 1896. It showed that of every \$100 of business transacted through the banks the different forms of money were used in the following proportions: Gold, 60 cents; silver, 50 cents; greenbacks, silver certificates, Treasury notes, and national bank notes, \$6.30; bank checks, drafts, etc., \$92.50. And the clearing-house returns of the country show that the bank checks and drafts constitute a currency which performs transactions in the exchange of property amounting to over \$50,000,000,000 a year. And a great many checks, estimated at \$20,000,000,000, are used as currency each year, which do not go through the clearing houses.

It is very important to note in this connection that a bank check and a bank note are practically the same thing. Both are obligations of the bank payable on demand, and both, without being legal tender, perform admirably the work of money as a medium of exchange. But, notwithstanding this identity, there is a great difference in the amount of service rendered, that of the check and draft being scores of times that of the note. This is partly due to the superior safety of payment by check or draft by reason of their being collectible only by the person named as payee and upon his indorsement, which indorsement becomes a receipt. But another element which reduces the serviceableness of the bank note is the legal limitations put upon its issue.

No one would object to a bank's receiving a deposit of \$100,000, payable on demand by means of checks. Why, then, should anyone object to the bank's giving to the depositor, instead of a check book, its promises to pay the bearer on demand, if these bank notes will better serve the legitimate purposes of the depositors? For it should be understood that they may better serve him. Which of these two forms of the bank's demand obligation will best serve in a given case or community depends on the location of the place where the given business is to be transacted, the habits of the community, and the relations of the parties. Every person who accepts a check does so by reason of his faith in the person from whom he accepts it. This implies a knowledge of the character and standing of that person. But many times we must deal with strangers. In dealing with them we must use some form of currency whose value does not depend on anything personal to them or to us. In that case the bank note is much more serviceable than the check. Again the habits of the community have much to do with the relative serviceableness of the check and the note. In old, thickly settled communities, where banks have long existed and where the people have acquired the habit of making deposits and paying by checks, the use of checks will cover all large payments and will even be the medium used in more than half of the retail transactions. But in the new and sparsely settled parts of the country, where banks are fewer and less accessible, and where the people have not become habituated to deposits and checks, the bank note will be found the more serviceable form of using the bank credit. It seems reasonable, therefore, that the law governing the operations of banks should be of such character as will make it practicable for banks in all sections of the country to provide the form of currency which will enable them to best serve the communities in which they are located. As Professor Charles F. Dunbar well says:

It is of great consequence that the medium used should be made up of the kinds most convenient for the use of the community, and divided between those kinds in the proportions most convenient. This question of proportion is one which no com-

bination of counselors, public or private, can determine. \* \* \* Left to itself, the country settles this problem of proportion in a natural way—by the demand which each individual using a credit currency of any kind will make for notes or for a deposit account, as his special conditions may require. But in order that this natural process should go on easily and without inconvenience to the community, it is requisite that the banks or bankers with whom individuals deal when obtaining loans or receiving payments should have the ability to respond to demand in either form; in other words, that the creditor of the bank or banker should be able to receive the evidence of his claim in the one form if he expects to use it in large operations or in a closely settled community, or in the other if in small operations or where hand-to-hand dealings are the rule, and that the lender should find his profit equally in responding to either demand. It is only by being allowed to take one or the other form, as occasion requires, that a given mass of bank credit can perform its functions with the maximum of public advantage.

#### WHY THERE ARE LIMITATIONS ON BANK-NOTE ISSUES.

This brings us to the question, Why should there be any limitations on the power of a bank to issue that particular form of obligation expressed by a bank note? The law puts no limit on the amount for which a bank may become liable through demand by check; nor does the law attempt to limit the right of any individual to make such number and amount of notes as he chooses and pass them to any person willing to receive them; nor does it limit the right of a number of persons to unite in making such number of notes as they choose and using them in the purchase of whatsoever they desire from persons willing to accept them. Why, then, should the public, through law, interfere with the freedom of banks to issue such number of notes as they may deem desirable? The chief purpose is not to protect the holder from loss, because he accepts the bank note voluntarily, the notes not being legal tender, and he could have his recourse through the courts in case of default, the same as against the maker of any other note that he might accept. Indeed, until well along in this century the issuing of notes was regarded as inherent in the nature of a bank. The reason for the limitation and regulation of bank-note issues was well expressed by former Secretary of the Treasury Charles S. Fairchild, in his statements before the Committee on Banking and Currency last January (Hearings, p. 92), as follows:

I conceive that the way Government gets its right to interfere as to these demand obligations is this: They were found to be a most useful instrument in transferring property and services from man to man. To attain their highest usefulness, however, it was necessary that they should have great rapidity of movement, and in order to attain that rapidity of movement the receiver of them must be saved the necessity of looking to the credit of the issuing party, whoever he might be.

Therefore Government properly came in and devised a system by which they shall be issued and then certifies that they are issued under that system. So that a man who takes a note, if he knows how good the system is, can know how good the note is, and he does not have to stop to look further. He has to know one large thing instead of a vast number of smaller things.

Now, that is the same service exactly that the Government performs when it coins pieces of bullion. In the case of silver another service is performed, because with the silver dollars the Government has put a certain degree of promise behind them; but take a piece of gold—and it would be the same way with silver if we had the free coinage of silver with no Government credit behind it—and what the Government does in that instance is simply to take the piece of bullion from the owner of it and put it in a certain form and certify that it is such a quantity and of such a quality. The Government does not contribute any capital; it does not put anything into the bullion transaction; it does not confer much benefit upon the owner of the bullion, because he could put the weight and the quality on it if the Government did not do that, but it does confer a very great benefit upon the people who want to use that bullion for the transfer of their property and services, in that it saves them the trouble of assaying and weighing.

The Government does the same thing with a bank note. It does not put any capital into it. It does not give it any credit, except that it provides a system and certi-

ties that it is issued under that system. The Government performs a great service in that way, of course, to the people who want to use bank notes, and in both cases it performs a great service to the whole community in that it diminishes the amount of bullion and the number of bank notes necessary to carry on the transactions of the community, because it gives them both greater rapidity of movement and causes less of them to be required for the same volume of transactions.

If that is a true statement of the Government's functions in regard to bank notes, it has always seemed to me we should approach the subject with the fact in view that the duty of Government is not to repress these things, but to go on in the direction of the principle, the philosophy, which has given it its right to interfere at all, and simply provide for the greatest facility of movement, that being dependent on the goodness of the system that it devised, and, having done that, leave the people to take care of themselves.

#### MERITS OF OUR PRESENT BANK-NOTE SYSTEM.

In considering a proposal to change our system of bank-note issues, it is proper that we candidly examine the system that we have, recognize its merits and preserve them, discover its faults and correct them.

Under our present system, bank notes can be issued only by banks operating under authority granted by the United States, and which are therefore called "national banks." The issue of bank notes by other banking institutions is not forbidden by law; but the United States levies a tax at the rate of 10 per cent per annum on all bank-note issues other than those of national banks, the effect of which tax is to prohibit all other bank-note issues. A national bank may be organized in any part of the United States by any number of persons, not less than five. The minimum capital required is \$100,000 actually paid in, except that in places of less than 6,000 inhabitants national banks may be established with a capital of \$50,000. The persons desiring to establish a national bank must satisfy the Comptroller of the Currency that they are proper persons to be intrusted with this authority, that their financial standing will warrant him in granting it, and that the capital is all paid in.

As an antecedent condition to the transaction of business, a national banking association is required to buy in the market United States bonds to an amount the face value of which shall not be less than 25 per cent of the capital of the bank, but not exceeding \$50,000. The entire capital may be invested in these bonds. Upon depositing these bonds with the United States Treasurer at Washington an amount of notes bearing the promise of the bank to pay the specified sum on demand may be issued to it equal to 90 per cent of the par value of the bonds so deposited, and not exceeding 90 per cent of the capital of the bank. Upon being signed by the proper officers of the bank, these notes may be used as currency. These notes are not a legal tender in payment of debt, except to national banks, all of which are bound to accept them at par; and they are receivable in payment of dues to and from the United States, except duties on imports and interest on the public debt. They are redeemable in lawful money at the United States Treasury, each national bank being required to keep in the hands of the United States Treasurer for this purpose a fund in lawful money equal to 5 per cent of its circulation.

The present system had its origin during the civil war, the prime object of the Government being to make a market for its bonds. Though the system thus had its origin, not in the demands of trade, but in the exigencies of the Government, it has in some respects served the purposes of trade excellently. In the first place, the notes issued under this system are safe. No one has ever lost a dollar through having in his possession a national bank note. They are good, whether the bank

by which they were issued and whose promise they bear remains solvent or not. Moreover, they are equally good all over the country. A note issued from a bank in Maine is good in California. Before the war bank notes were issued under State regulation. As might be expected, the regulations varied, those of some States being wise and those of other States being very unwise. As a consequence, some of the notes were perfectly good and others were almost or quite worthless. And even those that were good locally, where the methods and standing of the issuing bank were known, were rarely good outside of the State or section where they were issued. The present system has demonstrated that it is possible, without granting a monopoly of the note-issuing power to one bank, to have bank notes which are absolutely safe from loss to their holders through any mismanagement of the bank, and uniformly good all over the country. And the people of the United States would not and should not approve of any system which would fall short of the present standard in these respects.

#### DEMERITS OF OUR PRESENT BANK-NOTE SYSTEM.

But the system of bond-based bank-note issues is by its very nature open to serious objections.

The vital thing to remember in considering this subject is that currency is simply an instrument of trade, a means of effecting exchanges; that it has no other use or purpose, and that therefore its volume should depend upon and be responsive to the demands of trade. But in this vital matter a system of bond-based bank-notes signally fails.

In the first place, the volume of notes under this system is largely determined by the state of the Government's credit. The issue of notes is conditioned upon the prior purchase of Government bonds. If, then, the credit of Government be low, the bonds bear a high rate of interest and yet can be bought for a small price. Under such circumstances it will be profitable to buy the bonds and issue notes upon them. But as the credit of the Government improves the bonds bring a higher price and pay a lower rate of interest. Then it becomes unprofitable to invest in the bonds and issue the notes. As proof of the correctness of this reasoning, attention is invited to Table 5, in the appendix to this report, which shows the volume of national-bank notes in circulation each year since the establishment of the system. After the close of the war, when the process of paying the bonds or refunding into lower-rate bonds (indicative of improved public credit) was well under way, the volume of national-bank notes grew steadily smaller, shrinking from \$339,081,799 in 1873 to \$122,928,085 in 1890.

In the second place, the higher the prevailing commercial rate of interest the less likely are bond-based notes to be issued. For example, suppose that the market price of United States bonds bearing 4 per cent interest is 120. In that case, by investing \$120,000 a bank can buy \$100,000 of bonds. On the deposit of these bonds it can get \$90,000 in circulating notes. But it is required to put up with the United States Treasurer a redemption fund equal to 5 per cent of its circulation. In this case the redemption fund would be \$4,500. So that instead of having \$120,000 to lend the bank would find itself with only \$85,500 to lend, or \$35,500 less than if it had not taken bank-note circulation. Now, if the local rate of interest be low, somewhere near that paid by the bonds, the bank may find it reasonably profitable to take out the circulation. But the higher the local rate the less inclined the bank will be to diminish the amount of its loanable funds by investment in low-rate bonds. As proof of the correctness of this reasoning



attention is invited to Table 6 in the appendix, showing the extent to which national banks in different sections of the country issue currency in the form of bank notes, as computed from data in the report of the Comptroller of the Currency for 1897.

The first group consists of the banks, 132 in number, having an aggregate capital of \$17,530,250, in three typical New England States. The amount of bank-note circulation that could be issued on the minimum required deposit of bonds was \$3,650,625, while the amount of circulation actually taken out was \$10,036,585. The next group consists of three Western States—Nebraska, Kansas, and Missouri (outside of St. Louis)—with 264 national banks, having an aggregate capital of \$25,457,100. The amount of circulation that could be issued on the minimum required deposit of bonds was \$4,681,597, while the amount actually taken out was only \$5,518,237. The next group consists of six Southern States, with 102 national banks, having an aggregate capital of \$10,779,000. The amount of circulation that could be issued on the minimum required bond deposit was \$2,273,400, while the amount actually taken out was only \$2,568,317. That is, in the New England group, where the local rates of interest are low, the amount actually taken out was three times the minimum, while in the Western and Southern groups, where the local rates of interest are high, the banks scarcely exceeded the minimum.

In other words, to those sections of our country where capital is plentiful and where the rates of interest are low, our present system gives increase to abundance; while to those sections where rates of interest are high, showing the need of loanable funds, the system gives little relief. In order to secure bank notes for circulation a community must invest more capital in bonds than it gets back in the form of bank notes—that is, a community is required under our present system to send away a part of its loanable capital for investment at a low rate. But this is precisely what a community having inadequate loanable capital can not afford to do. And if a portion of the loanable capital be sent away for this low-rate investment the rate of interest on the remaining funds must be raised.

In the third place, as a corollary of the above, a system of bank-note issues based on Government bonds can not be responsive to seasonal demands. In the agricultural communities of the West and South the demand for currency during the three or four months in which the bulk of the crop is being moved is very much greater than it is during the rest of the year; and to be of most service the funds must be in the form of coin or bills, preferably the latter. These extra funds the banks in the vicinity ought to be able to provide through increased issue of bank notes based upon the values, promptly realizable, of the crops themselves; but to this seasonal demand the local banks are under the present system utterly unable to respond. To secure the funds the buyers of the products must go to the money centers and borrow. Their demand for funds must there meet and compete with other demands of the same kind, and the consequence is that they can command the necessary funds only by offering a higher rate of interest. This, of course, means that so much less can be paid for the products, and in so far as the rate is unnecessarily high there is an unnecessary loss to the producer. "The means to move the crops should be furnished by the crops themselves," and under a proper system of bank-note issues they will be so furnished, to the mutual advantage of the producer and the banker.

In the fourth place, as a second corollary of the above, bank-note

issues can not under the present system respond promptly to emergency demands for note currency. A good illustration of the delay in responding to such demands was furnished in the summer of 1893:

The New York banks held on June 1, 1893, a surplus of \$21,000,000 in excess of their legal reserve. At that time the volume of national-bank notes outstanding was about \$177,000,000. By the 1st of August extraordinary demands for currency had drawn down the reserve to \$11,000,000 below the legal minimum, and the outstanding notes were only about \$5,000,000 more than on June 1. By September 1, however, when the reserves were but \$1,500,000 below the minimum, when the urgency was past and currency was once more comparatively abundant, the notes had begun to expand and had already reached \$199,800,000, subsequently rising to \$209,300,000 on November 1, notwithstanding the continued decrease in the demand for them.<sup>1</sup>

Having been called into existence not by the requirements of trade but by the exigencies of the Government, being based on the debt of the country instead of its wealth, on what our people collectively owe instead of what they individually own, our present system of bank-note issue is not a true bank currency, and is therefore unresponsive to the demands of trade, coming forth when and where there is little demand for it and responding slowly or not at all when and where the need is urgent. And the trouble is inherent in the system; it can not be remedied except by a change of basis. The one merit of our present system, and it is a very great one, is that the notes are good, and uniformly good, all over the country. Can a system be devised whereby this essential quality can be retained completely, giving us a currency absolutely good from Maine to California, yet ample in quantity to meet all the needs of business in every section and at all seasons, at the minimum of cost and with a maximum of efficiency? Your committee believe that the answer to the foregoing question is yes, and that the bill herewith reported embodies the plan whereby that result can be reached.

#### WHAT IS PROPOSED.

The wealth of a country should be the basis of its currency. The basis is furnished by commerce itself. The products of the labor of the people represent all there is of financial value (wealth) in a nation. Commercial banks, the friends of all classes of people, the longest-lived and soundest institutions known to history, are the custodians of the representatives of this wealth in the shape of commercial assets, and commercial assets, all time proves, are the highest form of security for note circulation. Notes issued by properly capitalized and inspected banks, to the extent of a portion of their paid-up capital, and made a first lien upon their assets, not specially pledged but held as general security, have behind them the only truly scientific basis for circulation in a country like ours, the basis being the product of the energy, the muscle, and the brain of our people. Trade consists in the exchange of these products. Banks are the natural facilitators of such exchange. They hold, in short, bills receivable, the paper representatives of the products themselves. As by the increase of products trade increases, so, scientifically and naturally, there is produced in an increase of assets a larger basis for note circulation. The means to move the crops are furnished by the crops themselves. What better basis for bank notes can be created than these quick assets? Such bank notes, under regulations for daily redemption, modestly and automatically retire when they are not needed.

Graft this principle upon the national system. Abolish the oversecurity and the tax on circulation. Drop the United States bond special security. Adopt the general security principle, which is in such successful operation in Canada, making the note a first lien on all assets, including double liability of stockholders, limiting its issue to a percentage of the capital, with a guaranty fund, and other minor details to be arranged.

These words of Mr. W. C. Cornwell, of Buffalo, N. Y., in an address delivered in Chicago in 1893, are a prophecy of the spirit, motive, and

<sup>1</sup> Report of the Monetary Commission.

method of the bill herewith reported. The bill proposes to recognize the principle that "the wealth of the country should be the basis of its currency," and that the special bond security should be abolished.

Such a currency, made absolutely safe, based upon and springing out of the production of the people, always proving responsive to their requirements and adequate to their needs, is truly a currency of the people and will serve them better and protect their interests more fully than any other can, provided always that it is kept as good as gold in their hands, by current redemption in that metal which is used as the standard of value by all the civilized world.

The purpose of this measure is to give to the cotton and wheat grower, the cattle-feeder, and the manufacturer a lower rate of interest when its full advantages are attained, in every part of the United States, and a currency ample for the legitimate requirements of the farm and the factory. It applies to our present banking system the principal of credit currency, which has been in practice in Scotland for more than two hundred years, and been aptly described as follows:

"It has provided Scotland with an elastic currency adapted to the conditions of her industries and adequate in volume to their changing needs. It has afforded an opportunity for entering business to thousands of poor but honest men and enabled them to lay the foundation of a comfortable home, and, in many cases, of a fortune."

"It has convinced the people so conclusively of the value and safety of the banking currency system that no serious panic has ever lasted beyond a few days or has ever affected any of the banks except those which were justly the subject of distrust." (Conant's History of Modern Banks of Issue, p. 155.)

#### THE NECESSITY OF CAUTION IN MAKING CHANGES.

While the principles thus set forth are the fundamental principles which should govern the issue of currency, your committee have been conscious of the fact that the United States has been long accustomed to a different system of currency and that radical and rapid changes might induce anxiety and disturbance. We have therefore proceeded with an abundant measure of conservatism in proposing to apply these principles of currency to existing conditions in the United States. We have provided in the bill herewith reported a system which departs only by degrees from the existing system, and which at nearly every step leaves the field open for the competitive trial of the new system along with the old. Such a trial, it is reasonable to believe, would result in adherence to that which proves safest and most advantageous to the community.

Wide discretion is given to the Comptrollers of the Currency to arrest any undue expansion of bank-note circulation and to refuse to admit to the new system banks which do not prove their solvency and conservatism. The new system, moreover, is to be substituted only over a series of years for the old, and if at any step the substitution appears to involve danger either to the national credit or to safe rules of banking, it will be in the power of Congress to arrest the change before it has attained a dangerous momentum. Your committee, reinforced by the study of the banking history of all nations, so firmly believe that the new system will vindicate its soundness and benefits to the country that they have so adjusted the provisions of the proposed bill that the relations of the new to the old during the transition period will be essentially a question of the survival of the fittest.

## GOOD FEATURES OF PRESENT LAW CONTINUED.

It is believed that every good feature of our present system is preserved. No change is made except where it is imperatively demanded in the public interest. The great merit of our present system is the uniform goodness of all the bank notes. "Every note of every bank, no matter what the bank, where it is, or what its condition, being secured in precisely the same manner and degree, passes current everywhere without a thought of discrimination." The bill continues this plan of having all the bank notes "secured in precisely the same manner and degree." This necessitates the continuance of the policy of restricting the note-issuing power to banks operating under authority of the General Government; that is, all bank notes will be issued by "national" banks. As now, these banks may be organized in any part of the United States by any number of persons not less than five. For the benefit, however, of communities of small population, it is provided that where the population is less than 3,000 the capital required shall be only \$25,000. Persons desiring to establish a national bank must, as now, satisfy the Comptrollers of the Currency that they possess the requisite character and financial standing and that the capital is fully paid in. As now, the engraving and printing of the notes will be done by the United States Government, the expense being paid by the banks, respectively. This will enable the Comptrollers of the Currency to control the volume within the limits provided by law. It will at the same time preserve the uniformity of appearance of the notes (thus, as now, facilitating their currency), and the superior execution and special paper will continue to practically prevent counterfeiting. The inspection will continue to be by officers of the United States, but new safeguards have been added to render the supervision even more effective than it has been.

On account of their demonstrated safety, the bond-based notes are thought well of everywhere. And in some parts of the country, where there is a surplus of accumulated capital seeking investment even at a low rate, these notes may be issued at a reasonable profit. It seemed only right, therefore, as well as prudent, not to put anything in the way of the continued use of this class of notes where they are desired, until by the payment of our national debt the basis will of necessity be removed. And all the conditions of their issue remain the same as now, except that notes are issued to the par of the bonds and to the full amount of the capital, instead of being limited to 90 per cent as now, and the tax on circulation is removed. The 90 per cent limit was imposed at a time when the credit of the Government was low and it was deemed advisable to provide in this way a margin of safety. As the national bonds now bear a premium, and in view of the specific recommendation in last annual message of the President, it seemed that the least that should be done would be to allow the issue to par.

## THE NEW PLAN FOR BANK-NOTE ISSUES.

Some of the arguments in favor of a currency based upon commercial assets, flexibly adjusted to the demands of business, have already been set forth. The present national bank-note system, under which the notes are secured by a deposit of interest-bearing bonds with the United States Treasurer, does not, as already pointed out, afford this responsiveness to the demands of business. On the contrary, under the high premiums which now have to be paid for the bonds, the remarkable phenomenon is presented that as interest rates rise in the money mar-

ket, indicating the scarcity of the circulating medium, it becomes less profitable to issue national bank circulation and more profitable to loan capital directly, without putting it into the form of circulating notes. In this respect, as in respect to the accumulation of money in the Treasury in times of prosperity and large revenues, our present currency system works in the wrong direction, fettering trade when it most needs freedom, and flooding the circulation with redundant paper when the markets are most sluggish.

For this reason we believe that the currency should be based upon the commercial assets of the banks, and that there should be no specific pledged security except a safety fund of such amount as, from the experience of our own and other countries, would protect the note-holder against any possible loss. Your committee, however, mindful of the unfamiliarity of this proposition in the United States within the last thirty years, propose that no bank shall issue circulating notes which does not have on deposit as many bonds as are now required by law, receiving back its notes in the form of the present national bank note to an amount equal to the face of the bonds. It must also deposit an amount of greenbacks equal to at least 25 per cent of its capital, in return for which it receives an equal amount of national reserve notes. It may then secure an amount of notes based on its general assets equal to 25 per cent of its capital, provided that bond-based notes have first been secured to an equal amount. It must, however, have deposited with the Government, to be placed in the bank-note guaranty fund, a sum in gold coin equal to 5 per cent of these last notes, and must have made such arrangements for the current redemption of these notes at some clearing-house city, as well as at its own counter, as the comptrollers may direct and approve.

#### TWO ILLUSTRATIONS.

How would a New England bank probably act? In New England loanable capital is abundant. The people are very conservative, and the banks of that section will probably be slow to adopt the new note issue. A bank in Rhode Island, for example, will probably deposit bonds to an amount approximating its capital, take an amount of national-reserve notes not very greatly in excess of the minimum requirement, and none of the new notes. After the success of the new note has been demonstrated, after its entire safety and great desirability have been thoroughly established through some years of experience, then the new note will be gradually taken out there as elsewhere.

How would a Minnesota bank probably act? Minnesota is possessed of immense undeveloped resources. Capital invested with reasonable prudence yields large returns. Though possessed of much wealth for a young State, there are so many openings for profitable investment that there is large demand for loanable capital at a good rate of interest. A bank in Minnesota, therefore, would probably take at once the maximum permitted; that is, it would take out bond-based notes to the amount of 40 per cent of its capital, reserve notes to the same amount, and thereby secure the right to issue the new form of note to the amount of 40 per cent of its capital. And each year after four years from the passage of this act, it would reduce the amount of its bond-based notes, as provided in this bill, so that at the end of eight years from the passage of this act the Minnesota bank would be able to use its credit in the form of untaxed bank notes to the extent of 80 per cent of its capital, and with the same profit to itself and its customers as it can now use its credit to be drawn upon by check.

**HOW THE NEW NOTES ARE RENDERED ABSOLUTELY SAFE.**

As has been said, a bank note is practically the same thing as the demand upon a bank expressed in a check. Before a bank will give to any person the right to check against it, it will require that person to deposit either cash or something else readily convertible into cash. Before giving out its note, too, the bank will require the person to whom it is given to make a similar deposit. The ideal condition will be reached when, the person having made the necessary deposit, the bank can furnish him either a check book or its notes with equal ease and at equal cost, leaving the customer to select the form of demand obligation which will best serve his legitimate business purposes. As a matter of fact, the same management of the bank which will render the check safe will make the note safe. But, as has been said earlier, the note is to go everywhere and be used by people unacquainted with each other or with the bank. To facilitate its use, therefore, it must be issued under a system which can be readily understood and which will give to the people generally such assurance of the goodness of the note that it will be accepted without hesitation by everyone. What, then, are the provisions of this bill whereby the safety of the note issues is secured and made uniform throughout the country?

(1) Uniformity of regulation. Every bank of issue is established under national law and is subject to national supervision. And the laws and regulations are so carefully drawn as to reduce to the minimum the opportunity for organization without ample guaranty of responsibility and good faith.

(2) Uniformity of note form. Familiarity of appearance, if previous experience has been satisfactory, conduces to ready reception. The resemblance of all the bank notes to each other will continue to be an important item in giving them currency.

(3) Limitation of issues. The bank-note issue of any bank can not at most exceed the amount of its paid up and unimpaired capital.

(4) Redemption agency. Each bank of issue may be required, under regulations to be prescribed by the Comptrollers, to make arrangements with some bank of well-known responsibility in a reserve city to redeem on presentation its notes, just as banks now make arrangements for the care of their checks and drafts. This will be another test of the standing of the bank.

(5) First lien. The bank note has the first lien on the assets of the bank.

(6) Double liability of the stockholder. The lien of the note takes precedence of everything else as to the double liability of the stockholders.

(7) Bank-note guaranty fund. Each bank in the system places in the hands of the Government a sum in gold coin, equal to 5 per cent of this class of notes issued to it, to be placed in what is called the "bank-note guaranty fund." These sums constitute one fund, and from this fund (which will be a very large one) the notes of any failed bank will be promptly paid on presentation at any subtreasury in the United States.

(8) Assessment. If at any time the money in the guaranty fund should run low, the Comptrollers are authorized to assess each bank in the system each year to the extent of 1 per cent of these notes issued to it. Starting with the year following the resumption of specie payments, Mr. A. O. Eliason has examined all the bank failures whose accounts have been closed, numbering one hundred and one, and found that had

all the banks in the national system issued an amount of currency equal to their capital, or one hundred per cent, the assessment on the same to cover losses would have been infinitesimal, being only one-nineteenth of one per cent per annum.

Recalling, however, that the banks deposit with the Government in gold coin an amount equal to 5 per cent of the notes issued for their redemption in case of bank failures, it is therefore clear that the currency will be safe beyond a peradventure.

In other words, briefly stated, the safety of the notes is secured on the mutual insurance plan, all the banks in the system being behind each bank.

#### SOLIDITY OF NOTE ISSUES UPON COMMERCIAL ASSETS.

With sufficient protection afforded by the bank-note guaranty fund against the occasional failure of a badly managed bank, the essential solidity of note issues upon commercial assets is bound up with the solidity of the business of the country. The advantage of having the whole commercial assets of the banks of the country pledged for the redemption of their notes lies in the fact that nearly the whole negotiable wealth of the country passes through their hands. The aggregate capital, surplus, undivided profits and individual deposits of national, State, and private banks, loan and trust companies, and savings banks, as reported by the Comptroller of the Currency at the date of June 30, 1897, or about that date, was \$6,822,326,870.

It is fair to assume that many of these banks which are not national banks would enter the system under the benefits afforded by the bill reported by your committee. These same items for the national banks alone on December 15, 1897, were \$2,887,000,000, and their loans were \$2,082,608,324. Since these loans are all payable within ninety days, with a circulation of \$300,000,000 issued by the existing national banks alone, the entire amount necessary to redeem this circulation in full would pass through the national banks within a period of about fifteen days. This control over quick assets, afforded by maturing commercial paper, as well as by accumulated cash reserves, explains the secret of the greater ability of the banks to maintain the current redemption of circulating notes than of the Treasury, with its comparatively small resources.

The general security of banking upon commercial assets, and the fact that the system could not break down except under an avalanche of calamity which would carry national, state, municipal, and private credit down also, is strikingly set forth in the report of the monetary commission appointed by the business men of the country for the framing of a currency bill, from which your committee has embodied several sections in the bill herewith reported. They say in their report:

The objection that is sometimes made that the larger banks in the great cities would not issue notes because of an apprehended liability for other banks, is shown by statistics to be groundless. Eighteen hundred and ninety-three was the year of largest bank failures, but had all the banks of the country then issued notes up to 80 per cent of their capital, the amount of their assessment to make good the ascertained deficiencies of that year up to the time of the Comptroller's report of 1896 would have been only a fraction of 1 per cent. Had 80 per cent of the capital of all the national banks been issued in notes, upon the proposed plan, since the beginning of the national-banking systems in 1863, the assessment upon the banks annually would have been an amount so insignificant that it need not be taken into account. Taking the country banks as a whole, it is found that on October 5 last, they had \$401,000,000 of the \$631,000,000 of national-bank capital. Should they issue notes

up to 80 per cent of their capital they would have \$321,000,000 of notes, and there would be \$1,956,000,000 of resources against these notes, not counting stockholders' liability.

If these resources of the country banks are insufficient security for this amount of notes, they will be insufficient only because there would then be such a condition of business paralysis that Government, municipal, and railway bonds would be valueless, and also few, if any, banks in the reserve cities would remain solvent. The occurrence of this disaster is so improbable that its consideration may be dismissed.

An apt and striking contrast of the power of commerce to maintain the parity of the currency, as compared with that of a government, is found in the splendid record of the Bank of France during the Franco-Prussian war, and our lamentable experience during and after the rebellion. Though the German army swept everything before it and took possession of Paris, though the Emperor became a prisoner, the discount upon the notes of the bank did not exceed  $2\frac{1}{2}$  per cent, and that only for a few months; while in the United States, although our territory was practically never invaded by the enemy, with a Government issue in the form of greenbacks, our paper was at a discount for eighteen years, the greenbacks being worth at one time only 35 cents on the dollar or were at a discount of 65 per cent. During all those years the middlemen and speculators were reaping a harvest that was only possible because of a depreciated currency.

#### THE SECURITY OF DEPOSITORS INCREASED.

The bill gives to the note holder, or to the Government in his interest, a paramount lien on the assets of the bank. Is this just to the depositors? Is it good public policy?

The note holder is himself a depositor. The one to whom the note was originally handed by the bank certainly gave to the bank, deposited therein, an equivalent. He was therefore certainly a depositor. In passing the note to the second holder the first holder transferred, for value received, to the second his right to the original deposit. And so on with each transfer of the note. The possession of the note is the tangible evidence that the holder has succeeded to the first holder's right as a depositor. The fact that the claim is in the form of a note shows that the note holder is likely to be a nonresident of the place where the bank is located. The depositor, on the other hand, is likely to reside in or near the home town of the bank. He makes his deposit to serve his own personal purposes. He is at hand to keep an eye on the management of the bank; able, in some measure at least, to keep track of its operations. If at any time he feels insecure he can promptly regain possession of his deposit. The note holder, equally a depositor, can not in the nature of the case thus watch over his own interests. If either must lose, it seems clear that the note holder should not be that one. In justice and equity his should be a preferred claim.

As has already been shown, it is for the public interest that the bank note, in order that it may be most serviceable as currency, should pass from hand to hand without the receiver being required to take time to examine into the standing of the maker. In the interest of the public, therefore, the unquestionable goodness of the note must be guaranteed by the system under which it is issued. And in order that the system may furnish this unquestioned guaranty, it is necessary that the notes be given priority of other obligations. The giving of this precedence to the notes is, therefore, in harmony with good public policy.



It is right, then, both in equity and in public policy to give to the note holder the prior lien on the assets of the bank.

Does this priority of lien, proposed in the bill, lessen the security now possessed by depositors? It does not. This priority of lien by the note holder is recognized fully by the present system. Under the present law the assets necessary to secure the note holder are taken in advance absolutely out of the control of the bank and are placed, in the form of Government bonds, in the custody of the Government as trustee for the note holder. Under the proposed plan, the assets are left with the bank for the use of its customers, except a small contribution for the guaranty fund, and the lien is used only in case of necessity. The lien in the one case is no greater than in the other. In both cases the safety of the depositor depends upon the way in which the bank is managed. Inasmuch as the proposed plan provides for even more careful supervision than the present law, the security of the depositor is increased rather than diminished by it.

#### INTEREST RATES WILL BE LOWERED.

The banker of to-day is not a money changer in any sense, but a merchant in the same sense that the storekeepers of the town are merchants; for if you should look over the notes held by him you would find only another form of the goods in the various stores. He has collected the savings of one class and loaned them to another. As the goods are sold off and retailed out the proceeds are applied to the payment of these same notes which were originally given to pay for them.

Now, it is self-evident that any system of banking that will cut down the rates of interest on the notes of merchants and men engaged in productive industry will prove an inestimable blessing to the great mass of our people. When it is recalled that manufactured articles pass on an average through three distinct mercantile hands, and are carried largely on borrowed capital, from the raw material to the finished product, it is a matter of the greatest importance whether the rate of interest paid is 2 or 10 per cent. In fact, such a divergence in the interest rate of any country means success or failure, prosperity or poverty.

Under this bill, when the full advantages are realized, the bank with \$100,000 capital will be authorized to issue \$80,000 of its credit notes, or have, in other words, after deducting the guarantee fund deposited with the Government, \$176,000 of gold coin and currency to loan its customers. Four per cent interest on the latter amount will produce the same income as 7 per cent on the former. Therefore, the people will have the use of nearly double the amount of coin and currency at about one-half the rate of interest they are now compelled to pay. Thus, the capacity to make larger loans means the capacity of the banks to reduce interest rates without loss of profits. It means that if any bank undertakes to resist the natural law of decreasing interest under increased facilities, new banks may be formed without sinking their capital in bonds purchased at a premium, and may compete for the legitimate profits afforded by reasonable interest rates. More than this, a currency based upon commercial assets, and not rendered rigid in volume by the deposit of special security, comes back promptly to the issuing banks for redemption. The tendency of recent years for currency to drift to New York, where it is loaned at low rates of interest, would be largely arrested by the necessity of promptly sending notes

back for redemption and by the retirement of notes which were not needed in the commercial centers. Notes thus received back could be reissued, and would, at the worst, be in the hands of the community for at least a time before they again took their flight toward the money centers.

#### THE BENEFITS OF BRANCH BANKING.

The bill reported embodies a recommendation that national banks be permitted to establish branches. Branch banking has not been familiar in this country since the liquidation of the successful State banks of Ohio and Indiana at the beginning of the civil war. It is a system in almost universal use in other civilized countries where the methods of modern finance are well developed, and is almost essential to the economical use of capital and the distribution of credit.

One of the most striking benefits of branch banking is that a branch may be created and maintained at a profit in a community without sufficient business for an independent bank. This would permit the extension of credit into many localities in the thinly settled portions of the country where it is now impossible. Branch banking, moreover, permits the more ready flow of capital from communities where it is not needed to those where it is needed than does the operation of independent banks. It carries into every community the amount which is there demanded and which is in less demand at other points. Branch banking may be compared, in the fluidity which it gives to capital, to a connected series of tanks with open pipes between, while the possible borrowings of independent banks are more like a series of tanks whose pipes require to be opened when any change is sought in the level of the fluid.

Branch banking in connection with reasonable freedom of note issues has produced such favorable conditions in Scotland and Canada that interest rates are almost uniform throughout those countries, even in the most remote sections, and disclose none of the striking differences disclosed in this country between rates in the money centers and in certain remote sections. The 10 chartered banks of Scotland have more than 900 branches, and the 38 incorporated banks of Canada have nearly 500, in each case for a population which is less than a tithe that of the United States. There can be no question, in the opinion of your committee, that the combination of the power to establish branches with the power to issue a reasonable amount in notes upon commercial assets would give a vigor to the credit system of this country which has been lacking under the present complicated and unscientific system of fixed Government issues, rigid security for bank notes, and the prohibition upon the power to establish branches.

#### THE ULTIMATE OPERATION OF THE BILL.

The bill reported by your committee looks ultimately to the elimination of Government paper money from circulation. Whether the process will be slow or rapid may depend upon the disposition of the banks and the turn of financial events. The reserve notes for which the banks are liable will be gradually reduced when the Government assumes the liability for such notes issued by failed and liquidating banks. With the withdrawal of bonded security also, the ultimate currency of the country will consist of gold and silver coin of full legal-tender power, and of notes issued by the banks under the provisions of the proposed bill.

The growth in the wealth of the country and in its ability to retain at home a large portion of the great gold production of the United States will tend to swell the gold resources of the country until gold coin is likely to become a common factor in daily exchanges among the people. This condition of affairs will operate at once to simplify and strengthen the currency system and to increase the security afforded by the proposed law to the holders of bank notes. The banks will be required, when reserve notes and legal-tender notes have alike disappeared, to fulfill all requirements of law calling for lawful money by keeping gold and silver coin, and the present quantity of silver is likely to be so completely absorbed for retail exchanges that the bank reserves will consist almost entirely of gold. This being the case, it is obvious that the issue of a banking currency based purely upon assets, without either bonds or reserve notes, will involve no risk of undue inflation or of loss to the note holder.

The bill reported by your committee proposes no change in existing laws regarding reserves against deposits. The cash reserves required in reserve cities at the date of the reports of the national banks to the Comptroller on December 15, 1897, were \$251,176,860, and the cash reserves required in country banks were \$55,940,589, making a total of \$307,117,449. The cash reserves held at the same date were \$410,568,427. These amounts are now held largely in legal-tender notes, but the abolition of such notes would leave a void which could be filled only by gold. If the circulation of the national banks, therefore, without allowing for any growth in the meantime, should rise to the amount of their capital on December 15, 1897, which was \$629,655,365, the reserves held against deposits, with the requirement of the two special funds for current redemption and for the guaranty of the ultimate redemption of the notes, amounting to 10 per cent of the circulation outstanding, would in themselves exceed \$463,000,000 in gold, or nearly 75 per cent of the outstanding notes.

It is upon the solid rock of metallic currency like this, with additional metallic currency in circulation among the people, that your committee propose to plant finally, by the gradual evolution of events, the monetary system of the United States. We believe that the arrangements proposed in the bill will accomplish this result gradually enough to avoid any shock to any vested interest, but that it will be accomplished so certainly that the United States almost upon the enactment of a measure promising such results will find their credit greatly enhanced abroad and placed upon unassailable foundations at home.

Believing that this bill, if enacted into law, will relieve the Treasury by destroying the "endless chain;" will greatly diminish the amount of gold reserve required to be kept by the Government, and practically stop bond issues for its replenishment; will diminish the possibility and severity of panics; will provide a sound, ample, and elastic currency, responsive to the demands of trade in all sections and at all seasons; and will materially reduce interest rates, especially in the parts of the country where such rates are now high, the Committee on Banking and Currency respectfully recommend that the bill do pass, with the following amendments: On page 2, line 1, after the word "appointed" insert the words "by the President"; on page 9, line 18, after word "exceeding" add the words "in the sum of its bank-notes and currency notes"; and on page 24, line 5, strike out the words "such tax", substituting therefor the words "the tax imposed in section thirty of this act."

## APPENDIX.

**TABLE 1.—Apportionment of money in the Treasury on May 31, 1898, between the fiscal department of the Treasury and the proposed division of issue and redemption.**

### TREASURY, FISCAL DEPARTMENT.

Gold coin .....	\$34, 990, 518
Gold certificates .....	1, 602, 940
Silver dollars .....	1, 325, 803
Silver certificates .....	6, 740, 757
Silver bullion .....	939, 903
Subsidiary silver .....	12, 058, 123
Minor coin .....	1, 396, 260
United States notes .....	30, 208, 559
Currency certificates .....	60, 000
Treasury notes of 1890 .....	1, 754, 425
Bonds and interest paid and fractional currency .....	3, 495, 210
Deposits in national banks .....	28, 731, 884
<b>Total .....</b>	<b>123, 512, 498</b>
Less outstanding checks and drafts, disbursing officers' balances, etc. . .	52, 713, 989
<b>Available cash balance .....</b>	<b>70, 590, 394</b>

### DIVISION OF ISSUE AND REDEMPTION.

<b>Gold coin and bullion:</b>	
Held against gold certificates .....	37, 486, 149
5 per cent of \$461,180,422 (silver dollars) .....	23, 059, 021
25 per cent of \$346,681,016 (United States notes), and \$101,981,280 (Treasury notes) .....	112, 165, 574
<b>Total gold .....</b>	<b>172, 710, 744</b>
<b>Silver dollars held against certificates .....</b>	<b>397, 732, 504</b>
<b>Silver dollars held against Treasury notes .....</b>	<b>4, 427, 855</b>
<b>Silver bullion (cost) .....</b>	<b>97, 553, 425</b>
<b>Subsidiary silver and minor coin .....</b>	<b>1, 000, 000</b>
<b>Total silver and minor coin .....</b>	<b>500, 713, 784</b>
<b>United States notes held against currency certificates .....</b>	<b>26, 540, 000</b>
<b>Grand total .....</b>	<b>699, 696, 413</b>

### NATIONAL-BANK NOTE FUNDS.

Redemption fund .....	8, 724, 768
Retirement fund .....	31, 275, 699

TABLE 2.—Redemptions in gold of United States notes and Treasury notes and exports of gold by fiscal years, 1879-1897.

[Finance Report, 1897, p. 140.]

Fiscal year.	United States notes.	Treasury notes of 1890.	Total.	Exports of gold.
1879.....	\$7,976,698		\$7,976,698	\$4,557,614
1880.....	3,780,638		3,780,638	3,639,025
1881.....	271,750		271,750	2,565,132
1882.....	40,000		40,000	32,587,880
1883.....	75,000		75,000	11,600,888
1884.....	590,000		590,000	41,081,957
1885.....	2,222,000		2,222,000	8,477,892
1886.....	6,863,699		6,863,699	42,952,191
1887.....	4,224,073		4,224,073	9,701,187
1888.....	692,596		692,596	18,376,234
1889.....	730,143		730,143	59,952,285
1890.....	732,386		732,386	17,274,491
1891.....	5,986,070		5,986,070	86,362,654
1892.....	5,352,243	\$3,773,600	9,125,843	50,195,327
1893.....	55,319,125	46,781,220	102,100,345	108,680,844
1894.....	68,242,408	16,599,742	84,842,150	76,978,061
1895.....	109,783,800	7,570,398	117,354,198	66,468,481
1896.....	153,307,591	5,348,365	158,655,956	112,409,947
1897.....	68,372,923	9,828,991	78,201,914	40,357,780
Total.....	494,563,143	89,902,316	584,465,459	794,249,820

TABLE 3.—Redemptions in gold of United States notes and Treasury notes, by months, January, 1892, to December, 1897.

[Finance Report, 1897, p. 139.]

Month.	United States notes.	Treasury notes of 1890.	Total.	Month.	United States notes.	Treasury notes of 1890.	Total.
1892.				1895.			
January.....	\$152,093	\$159,960	\$312,053	January.....	\$43,415,283	\$1,702,455	\$45,117,738
February.....	205,830	270,370	476,200	February.....	4,784,907	776,045	5,560,952
March.....	476,401	256,330	732,731	March.....	809,495	279,590	1,089,085
April.....	438,156	258,570	696,726	April.....	733,525	284,046	1,017,571
May.....	334,823	287,300	622,123	May.....	734,747	431,745	1,166,492
June.....	568,326	1,854,200	2,422,526	June.....	644,621	401,575	1,046,196
July.....	4,086,055	5,148,650	9,234,705	July.....	3,122,620	704,175	3,826,795
August.....	1,049,414	5,091,460	6,140,874	August.....	16,218,815	345,252	16,564,067
September.....	2,264,089	1,823,710	4,087,799	September.....	17,119,814	257,670	17,377,484
October.....	282,665	316,200	598,865	October.....	1,849,018	317,865	2,166,883
November.....	406,206	291,940	698,146	November.....	15,616,190	418,400	16,034,590
December.....	5,699,755	4,538,057	10,237,812	December.....	19,787,951	424,744	20,212,695
1893				1896.			
January.....	6,359,126	5,137,491	11,496,617	January.....	15,686,024	762,484	16,448,508
February.....	5,811,299	8,017,365	13,828,664	February.....	21,080,551	656,325	21,736,876
March.....	1,641,923	3,284,530	4,926,453	March.....	6,381,296	475,250	6,856,546
April.....	12,568,555	7,483,355	20,051,910	April.....	6,754,718	375,900	7,130,618
May.....	12,076,984	4,470,915	16,547,849	May.....	21,726,600	312,947	22,039,547
June.....	3,073,104	1,177,547	4,250,651	June.....	7,963,994	297,353	8,261,347
July.....	771,935	264,080	1,036,015	July.....	16,275,406	1,009,672	17,285,078
August.....	1,189,757	1,158,465	2,348,222	August.....	11,388,806	980,919	12,369,725
September.....	143,592	197,135	340,727	September.....	3,436,733	1,224,713	4,661,446
October.....	262,512	432,880	695,392	October.....	9,906,832	2,167,003	12,073,835
November.....	299,252	217,120	516,372	November.....	3,137,149	925,261	4,062,410
December.....	295,523	221,895	517,418	December.....	858,444	273,402	1,131,846
1894				1897.			
January.....	118,841	237,515	356,356	January.....	594,412	351,656	946,068
February.....	10,982,624	8,210,730	19,193,354	February.....	521,355	402,769	924,124
March.....	2,266,426	1,194,766	3,461,192	March.....	679,382	569,947	1,249,329
April.....	6,072,462	1,594,085	7,666,547	April.....	6,934,575	567,433	7,502,008
May.....	25,131,412	1,409,670	26,541,082	May.....	8,044,965	837,635	8,882,600
June.....	20,708,492	1,461,401	22,169,893	June.....	6,594,864	518,581	7,113,445
July.....	13,387,864	555,511	13,923,375	July.....	5,072,208	202,935	5,275,143
August.....	4,209,853	531,560	4,741,413	August.....	2,875,606	240,670	3,116,276
September.....	636,031	300,487	936,518	September.....	2,598,140	144,033	2,742,173
October.....	2,542,719	505,171	3,047,890	October.....	2,484,182	191,338	2,675,520
November.....	7,085,133	714,614	7,799,747	November.....	1,812,909	321,145	2,134,054
December.....	80,819,622	1,087,599	81,907,221	December.....	1,980,396	197,220	2,177,616

TABLE 4.—*Transactions of New York clearing house for forty-four years.*

[Report Comptroller of the Currency, 1897, p. 550.]

Year.	Number of banks.	Capital. <sup>1</sup>	Clearings.	Balances paid in money.	Average daily clearings.	Average daily balances paid in money.	Balances to clearings.
							<i>Per ct.</i>
1854.....	50	\$47,044,900	\$5,750,455,987	\$297,411,404	\$19,104,505	\$988,078	5.2
1855.....	48	48,884,180	5,362,912,098	289,694,137	17,412,052	940,565	5.4
1856.....	50	52,883,700	6,906,213,328	334,714,480	22,278,108	1,079,724	4.8
1857.....	50	64,420,200	8,333,226,718	365,313,902	26,908,371	1,182,246	4.4
1858.....	46	67,146,018	4,756,664,386	314,238,911	15,392,736	1,016,954	6.7
1859.....	47	67,921,714	6,448,005,956	363,984,683	20,887,333	1,177,944	5.6
1860.....	50	69,907,435	7,231,143,057	380,693,438	23,401,757	1,232,018	5.3
1861.....	50	68,900,605	5,915,742,758	353,383,944	19,269,520	1,151,088	6.0
1862.....	50	68,375,820	6,871,443,591	415,530,331	22,237,682	1,344,758	6.0
1863.....	50	68,972,508	14,867,597,849	677,626,483	48,428,657	2,207,252	4.6
1864.....	49	68,586,763	24,097,196,656	885,719,205	77,984,455	2,866,405	3.7
1865.....	55	80,363,013	26,032,384,342	1,035,765,108	84,790,040	3,372,828	4.0
1866.....	58	82,370,200	28,717,146,914	1,066,135,106	93,541,195	3,472,753	3.7
1867.....	58	81,770,200	28,675,159,472	1,144,963,451	93,101,167	3,717,414	4.0
1868.....	59	82,270,200	28,484,288,637	1,125,455,237	92,182,164	3,642,250	4.0
1869.....	59	82,720,200	37,407,028,987	1,120,318,328	121,451,393	3,637,397	3.0
1870.....	61	83,620,200	27,804,539,406	1,036,484,822	90,274,479	3,365,210	3.7
1871.....	62	84,420,200	29,300,986,082	1,209,721,029	95,133,074	3,927,666	4.1
1872.....	61	84,420,200	33,844,369,568	1,428,582,707	109,884,317	4,638,256	4.2
1873.....	59	83,370,200	35,461,052,826	1,474,508,025	115,885,794	4,818,654	4.1
1874.....	59	81,635,200	22,855,927,636	1,286,753,176	74,698,574	4,205,076	5.6
1875.....	59	80,435,200	25,061,237,902	1,408,608,777	81,899,470	4,603,297	5.6
1876.....	59	81,731,200	21,597,274,247	1,295,042,029	70,349,428	4,218,378	6.0
1877.....	54	71,085,200	23,289,243,701	1,373,996,362	76,358,176	4,504,906	5.9
1878.....	57	63,611,500	22,508,438,442	1,307,843,857	73,785,747	4,274,000	5.8
1879.....	59	60,800,200	25,178,770,691	1,400,111,063	82,015,540	4,560,622	5.6
1880.....	59	60,475,200	37,182,128,621	1,516,538,631	121,510,224	4,956,009	4.1
1881.....	61	61,182,700	48,565,818,212	1,776,018,162	159,232,191	5,823,010	3.6
1882.....	62	60,982,700	46,552,846,161	1,595,000,245	151,637,935	5,195,440	3.4
1883.....	64	61,182,700	40,293,165,258	1,568,983,196	132,543,307	5,161,129	3.9
1884.....	62	60,412,700	34,092,037,338	1,524,930,994	111,048,982	4,967,202	4.5
1885.....	64	58,612,700	25,250,791,440	1,295,355,252	82,789,480	4,247,069	5.1
1886.....	64	59,312,700	33,374,682,216	1,519,565,385	109,067,589	4,965,900	4.6
1887.....	65	60,862,700	34,872,848,788	1,569,626,325	114,337,209	5,146,316	4.5
1888.....	61	60,782,700	30,863,686,009	1,570,198,528	101,192,415	5,148,192	5.1
1889.....	64	60,782,700	34,796,465,529	1,757,367,473	114,839,820	5,800,784	5.0
1890.....	65	60,812,700	37,660,686,572	1,753,040,145	123,074,139	5,728,889	4.7
1891.....	64	60,772,700	34,053,698,770	1,584,635,500	111,651,471	5,105,526	4.6
1892.....	65	60,422,700	36,279,905,236	1,861,500,575	118,561,782	6,083,335	5.1
1893.....	65	60,922,700	34,421,380,870	1,696,207,176	113,978,082	5,166,580	4.9
1894.....	66	61,622,700	24,230,145,368	1,585,241,634	79,704,426	5,214,611	6.5
1895.....	67	62,622,700	28,204,379,126	1,896,574,349	92,670,095	5,188,277	6.71
1896.....	66	60,622,700	29,350,894,884	1,843,289,239	96,232,442	6,043,571	6.3
1897.....	66	59,022,700	31,337,760,948	1,908,901,898	103,424,954	6,300,006	6.01
Total.....	.....	\$7,467,400	\$1,134,201,773,780	\$53,215,844,718	\$4,127,116	\$3,947,177	4.69

<sup>1</sup> The capital is for various dates, the amounts at a uniform date in each year not being obtainable.<sup>2</sup> Yearly average for forty-four years.<sup>3</sup> Totals for forty-four years.TABLE 5.—*Clearing-house exchanges for years ending September 30, 1882-1897.*

Year.	New York.	Boston.	Philadelphia.	Chicago.	Total for United States.
1882.....	\$46,552,846,161	\$3,753,496,901	\$2,760,946,905	\$2,373,903,487	\$51,054,353,584
1883.....	40,293,165,258	3,540,980,659	2,794,181,748	2,507,022,178	53,536,061,332
1884.....	34,092,037,338	3,314,358,919	2,694,817,901	2,349,152,846	47,887,408,275
1885.....	25,250,791,440	3,365,702,730	2,244,184,406	2,248,230,189	37,770,110,819
1886.....	33,374,682,216	4,008,565,266	2,785,875,450	2,560,369,272	48,211,943,771
1887.....	34,872,848,788	4,408,269,993	3,186,188,935	2,887,276,059	55,226,704,458
1888.....	30,863,686,009	4,288,878,016	3,155,190,237	3,069,288,194	48,651,054,957
1889.....	34,796,465,529	4,758,029,298	2,063,592,024	3,327,108,659	53,501,411,510
1890.....	37,660,686,572	5,102,281,307	2,755,523,735	3,907,046,008	58,845,279,505
1891.....	34,053,698,770	4,795,594,052	4,338,693,169	3,372,915,551	57,181,347,284
1892.....	36,279,905,236	4,901,086,976	4,959,891,142	3,671,149,047	61,017,839,067
1893.....	34,421,379,870	4,864,779,750	4,870,913,387	3,656,677,140	58,880,082,455
1894.....	24,230,145,368	4,095,995,080	4,263,650,459	2,962,542,206	45,028,496,748
1895.....	28,204,379,126	4,629,303,920	4,541,435,624	3,395,864,543	51,111,591,928
1896.....	29,350,894,884	4,554,116,109	4,538,505,883	3,353,903,806	51,977,799,114
1897.....	31,337,760,948	4,952,927,911	4,318,121,413	3,106,510,779	54,030,259,695

TABLE 6.—*Extent to which banks in different sections issue currency in excess of that corresponding to the minimum bond deposit permitted by law.*

Groups.	Number of banks.	Capital.	Maximum issue permissible.	Issue on required bond deposit.	Circulation actually issued.	Amount actually issued in excess of issue on required bond deposit.
<b>EAST.</b>						
New Hampshire .....	50	\$5,830,000	\$5,247,000	\$1,311,750	\$3,514,295	\$2,202,545
Vermont .....	49	6,985,000	6,286,500	1,324,125	3,765,422	2,441,297
Rhode Island (outside Providence) .....	33	4,715,250	4,243,725	1,014,760	2,756,868	1,742,118
Total .....	132	17,530,250	15,777,225	3,650,625	10,036,585	6,385,960
<b>WEST.</b>						
Nebraska .....	104	10,475,000	9,427,500	1,828,125	2,028,893	200,768
Kansas .....	103	8,567,100	7,710,390	1,691,347	2,111,454	420,107
Missouri (outside St. Louis) .....	57	6,415,000	5,773,500	1,162,125	1,377,890	215,765
Total .....	264	25,457,100	22,911,390	4,681,597	5,518,237	836,640
<b>SOUTH.</b>						
North Carolina .....	27	2,701,000	2,430,900	585,225	643,492	58,267
South Carolina .....	16	1,898,000	1,708,200	393,300	451,025	57,725
Florida .....	15	1,150,000	1,035,000	258,750	300,830	42,080
Alabama (outside Selma) .....	25	2,855,000	2,659,500	591,750	697,070	105,920
Mississippi .....	10	855,000	769,500	192,375	216,410	24,035
Arkansas .....	9	1,220,000	1,098,000	252,000	258,890	6,890
Total .....	102	10,779,000	9,701,100	2,273,400	2,568,317	294,917

TABLE 7.—*Value in gold of \$100 in currency in the New York market, 1862-1878, averaged by months.*

[Bureau of Statistics, "Finance, Commerce, and Immigration," October, 1895, page 518.]

Periods.	1862.	1863.	1864.	1865.	1866.	1867.	1868.	1869.	1870.	1871.	1872.	1873.	1874.	1875.	1876.	1877.	1878.
Jan .....	97.6	68.9	64.3	46.3	71.4	74.3	72.2	73.7	82.4	90.3	91.7	88.7	89.7	88.9	88.6	94.0	97.9
Feb .....	96.6	62.3	63.1	48.7	72.3	72.8	70.7	74.4	83.7	89.7	90.7	87.6	89.1	87.3	88.2	94.8	98.0
Mar .....	98.2	64.7	61.4	57.5	78.6	74.1	71.7	78.2	88.8	90.4	90.8	86.6	89.2	86.6	87.5	95.4	98.8
Apr .....	98.5	66.0	57.9	67.3	78.6	73.7	72.1	75.2	88.4	90.4	90.0	84.9	88.2	87.1	88.5	94.2	99.4
May .....	96.8	67.2	56.7	73.7	75.9	73.0	71.6	71.8	87.2	89.0	87.8	85.0	89.9	86.3	88.8	93.5	99.3
June .....	93.9	68.2	47.5	71.4	72.2	72.7	71.4	72.4	88.6	89.0	87.8	85.8	90.0	85.5	88.8	94.9	99.2
July .....	86.6	76.6	38.7	70.4	66.0	71.7	70.8	73.5	85.6	89.0	87.5	86.4	91.0	87.1	89.3	94.9	99.5
Aug .....	87.3	79.5	39.4	69.7	72.1	71.0	68.7	74.5	84.8	89.0	87.4	86.7	91.2	88.1	89.9	95.2	99.6
Sept .....	84.4	74.5	44.9	69.5	68.7	69.7	69.6	73.1	87.1	87.3	88.1	88.7	91.2	86.4	90.9	90.8	99.6
Oct .....	77.8	67.7	48.3	68.7	67.4	69.7	72.9	76.8	88.7	88.3	88.3	81.8	91.1	85.9	91.2	97.3	99.5
Nov .....	76.3	67.6	42.8	68.0	69.5	71.6	74.4	79.2	89.8	89.9	88.6	92.1	90.2	87.2	91.7	97.3	99.8
Dec .....	75.6	66.2	44.0	68.4	73.2	74.2	74.0	82.3	90.3	91.5	89.1	90.9	89.6	87.8	92.6	97.5	99.9

<sup>1</sup> On July 11, 1864, \$100 in greenbacks was worth only \$35.09 in gold.TABLE 8.—*Paper currency of each denomination outstanding May 31, 1898.*

Denomination.	United States notes.	Treasury notes of 1890.	National bank notes.	Gold certificates.	Silver certificates.	Total.
One dollar .....	\$2,522,938	\$15,828,939	\$349,640	-----	\$30,884,224	\$49,583,741
Two dollars .....	2,169,048	10,468,076	168,508	-----	18,804,414	31,608,046
Five dollars .....	62,818,662	31,162,655	71,658,578	-----	109,256,375	274,896,362
Ten dollars .....	81,077,861	29,637,900	70,319,400	-----	124,697,316	305,778,477
Twenty dollars .....	69,344,232	9,280,460	52,556,260	\$4,697,894	80,587,470	216,465,316
Fifty dollars .....	14,648,375	233,850	10,741,800	2,667,855	22,750,335	51,072,215
One hundred dollars .....	25,466,400	2,264,400	21,731,900	3,645,400	10,255,870	63,963,970
Five hundred dollars .....	15,484,500	-----	111,500	3,410,500	192,500	19,199,000
One thousand dollars .....	74,124,000	3,024,000	28,000	5,539,500	294,000	83,009,500
Ten thousand dollars .....	15,000	-----	-----	5,205,000	-----	5,220,000
Ten thousand dollars .....	10,000	-----	-----	12,320,000	-----	12,330,000
Fractional parts .....	-----	-----	30,691	-----	-----	30,691
Total .....	347,681,016	101,981,280	227,696,369	37,486,149	397,732,504	1,112,577,318
Unknown, destroyed .....	1,000,000	-----	-----	-----	-----	1,000,000
Net .....	346,681,016	101,981,280	227,696,369	37,486,149	397,732,504	1,111,577,318

TABLE 9.—Items of national bank statements, 1868-1897.

About Oct. 1, each year.	Number of banks.	Capital.	Surplus and undivided profits.	Circulation.	Bonds held to secure circulation.	Other United States bonds.	Specie.	Legal tender note.	Deposits.	Loans and discounts.
1863.....	66	\$7,188,393	\$128,030	\$45,260,504	.....	.....	\$1,446,608	.....	\$8,497,682	\$5,466,088
1864.....	508	86,782,802	7,992,678	171,321,903	.....	.....	44,801,497	.....	122,166,537	93,238,658
1865.....	1,513	398,157,206	71,063,659	171,321,903	.....	.....	18,072,013	.....	549,081,254	487,170,136
1866.....	1,644	415,472,369	85,952,764	280,253,818	.....	.....	9,226,832	.....	608,314,705	608,314,705
1867.....	1,642	420,073,415	100,447,033	293,887,941	.....	.....	12,798,044	.....	608,212,337	607,675,215
1868.....	1,643	420,634,511	114,091,645	295,786,489	.....	.....	13,003,713	.....	603,084,550	607,608,848
1869.....	1,617	426,399,151	128,852,635	293,593,645	.....	.....	23,002,406	.....	523,029,491	692,883,107
1870.....	1,615	430,399,301	132,070,058	291,798,640	.....	.....	23,002,406	.....	515,228,299	715,928,080
1871.....	1,767	458,255,696	143,121,388	315,519,117	.....	.....	18,400,011	.....	631,314,216	831,552,210
1872.....	1,919	479,629,174	156,891,301	333,495,927	.....	.....	10,229,757	.....	628,858,027	877,197,923
1873.....	1,976	491,072,616	174,829,631	339,081,799	.....	.....	11,131,104	.....	640,015,999	944,220,116
1874.....	2,004	493,765,121	180,442,544	333,225,298	.....	.....	19,868,469	.....	683,815,255	954,394,792
1875.....	2,088	504,829,769	187,321,030	318,350,379	.....	.....	21,240,945	.....	679,361,881	984,691,484
1876.....	2,089	499,802,232	178,647,498	291,544,020	.....	.....	8,050,330	.....	666,237,499	931,304,714
1877.....	2,080	479,467,771	167,348,800	291,544,020	.....	.....	21,360,767	.....	630,377,358	891,920,594
1878.....	2,053	466,147,436	167,833,984	301,888,092	.....	.....	30,688,620	.....	608,352,174	833,988,451
1879.....	2,046	454,067,365	156,087,470	313,786,342	.....	.....	42,173,731	.....	887,883,067	1,040,977,268
1880.....	2,090	457,553,985	166,658,274	317,350,036	.....	.....	109,346,509	.....	887,883,067	1,173,796,063
1881.....	2,132	463,821,985	184,512,809	320,200,069	.....	.....	114,334,736	.....	1,243,203,210	1,243,203,210
1882.....	2,269	483,104,213	193,137,761	314,721,215	.....	.....	102,857,778	.....	1,309,244,762	1,309,244,762
1883.....	2,501	509,699,787	203,552,441	310,517,857	.....	.....	80,642,987	.....	1,245,294,990	1,245,294,990
1884.....	2,664	524,271,345	210,289,275	298,775,123	.....	.....	88,538,119	.....	1,306,143,990	1,306,143,990
1885.....	2,714	527,524,410	205,960,161	298,869,597	.....	.....	93,001,673	.....	1,450,857,055	1,450,857,055
1886.....	2,852	548,240,730	223,752,686	228,672,610	.....	.....	98,697,093	.....	1,597,592,874	1,597,592,874
1887.....	3,049	578,462,765	242,954,991	167,283,348	.....	.....	105,085,964	.....	1,684,180,624	1,684,180,624
1888.....	3,140	592,621,656	262,954,991	151,702,810	.....	.....	118,335,608	.....	1,817,257,703	1,817,257,703
1889.....	3,290	612,584,095	282,261,630	128,450,600	.....	.....	133,515,076	.....	1,986,058,320	1,986,058,320
1890.....	3,540	650,447,235	310,570,531	132,928,085	.....	.....	143,423,298	.....	2,005,463,066	2,005,463,066
1891.....	3,677	677,426,870	330,891,160	131,323,302	.....	.....	156,237,311	.....	2,171,041,088	2,171,041,088
1892.....	3,773	686,573,015	348,524,180	143,423,298	.....	.....	165,644,028	.....	2,007,122,101	2,007,122,101
1893.....	3,755	678,540,339	350,225,444	182,959,726	.....	.....	174,736,512	.....	2,039,408,402	2,039,408,402
1894.....	3,781	668,861,847	334,121,082	172,331,978	.....	.....	182,481,611	.....	2,067,776,114	2,067,776,114
1895.....	3,712	657,135,499	336,842,835	182,481,611	.....	.....	200,808,632	.....	1,893,268,839	1,893,268,839
1896.....	3,712	648,540,325	334,752,001	182,481,611	.....	.....	239,387,702	.....	1,871,274,862	1,871,274,862
1897.....	3,610	631,488,095	.....	186,920,670	.....	.....	.....	.....	.....	.....



TABLE 10.—*Increase of note-issuing power under proposed law.*  
[Computed by the actuary of the Treasury Department.]

	Capital stock (Feb. 18, 1898).	Loanable power under existing law.	Loanable power under proposed law at beginning.	Loanable power under proposed law after 8 years.
<b>Maine</b> .....	\$11,121,000	\$8,644,042	\$14,234,880	\$19,128,120
<b>New Hampshire</b> .....	5,815,000	4,519,837	7,443,200	10,001,800
<b>Vermont</b> .....	6,985,000	5,428,245	8,940,800	12,014,200
<b>Massachusetts</b> .....	43,877,500	34,104,752	56,163,200	75,469,300
Boston.....	49,350,000	38,358,273	63,168,000	84,882,000
<b>Rhode Island</b> .....	19,387,050	15,030,147	24,751,424	33,259,728
<b>Connecticut</b> .....	21,541,070	16,743,271	27,572,570	37,050,640
<b>Total of New England States</b> .....	158,026,620	122,829,667	202,274,074	271,805,786
<b>New York</b> .....	31,607,940	24,567,967	40,458,163	54,365,657
New York City.....	48,900,000	38,008,600	62,592,000	84,108,000
Albany.....	1,550,000	1,204,772	1,984,000	2,666,000
Brooklyn.....	1,352,000	1,050,872	1,730,560	2,325,440
<b>New Jersey</b> .....	14,445,000	11,227,694	18,489,600	24,845,400
<b>Pennsylvania</b> .....	40,709,445	31,642,312	52,108,089	70,020,245
Philadelphia.....	20,915,000	16,256,644	26,771,200	35,973,800
Pittsburg.....	12,300,000	9,560,446	15,744,000	21,156,000
<b>Delaware</b> .....	2,083,985	1,619,823	2,667,501	3,584,454
<b>Maryland</b> .....	3,746,700	2,912,205	4,795,776	6,444,324
Baltimore.....	13,243,260	10,293,615	16,951,373	22,778,407
<b>District of Columbia</b> .....	252,000	195,872	322,560	433,440
Washington City.....	2,775,000	2,156,930	3,552,000	4,773,000
<b>Total of Eastern States</b> .....	193,880,330	150,697,752	248,166,822	333,474,167
<b>Virginia</b> .....	4,646,300	3,611,439	5,497,264	7,991,636
<b>West Virginia</b> .....	3,351,000	2,604,638	4,289,280	5,763,720
<b>North Carolina</b> .....	2,651,000	2,060,548	3,393,280	4,559,720
<b>South Carolina</b> .....	1,898,000	1,475,262	2,429,440	3,264,560
<b>Georgia</b> .....	3,166,000	2,460,843	4,052,480	5,445,520
Savannah.....	750,000	582,954	960,000	1,290,000
<b>Florida</b> .....	1,150,000	893,863	1,472,000	1,978,000
<b>Alabama</b> .....	3,355,000	2,607,747	4,294,400	5,770,600
<b>Mississippi</b> .....	855,000	664,568	1,094,400	1,470,600
<b>Louisiana</b> .....	860,000	668,454	1,100,800	1,479,200
New Orleans.....	2,300,000	1,787,726	2,944,000	3,956,000
<b>Texas</b> .....	18,642,040	14,489,936	23,861,811	32,064,309
Houston.....	1,150,000	893,863	1,472,000	1,978,000
<b>Arkansas</b> .....	1,070,000	831,681	1,369,600	1,840,400
<b>Kentucky</b> .....	8,289,900	6,443,507	10,611,072	14,258,628
Louisville.....	3,000,000	2,331,816	3,840,000	5,180,000
<b>Tennessee</b> .....	8,585,000	6,634,017	10,924,800	14,680,200
<b>Total of Southern States</b> .....	65,669,240	51,042,862	84,056,627	112,951,098
<b>Ohio</b> .....	27,967,030	21,737,989	35,797,798	48,103,292
Cincinnati.....	7,800,000	6,062,722	9,984,000	13,416,000
Cleveland.....	9,775,000	7,597,834	12,512,000	16,813,000
<b>Indiana</b> .....	13,732,000	10,673,490	17,576,960	23,619,040
<b>Illinois</b> .....	17,796,000	13,832,332	22,778,880	30,609,120
Chicago.....	18,950,000	14,729,304	24,256,000	32,594,000
<b>Michigan</b> .....	8,595,000	6,680,653	11,001,600	14,785,400
Detroit.....	3,300,000	2,564,998	4,224,000	5,676,000
<b>Wisconsin</b> .....	6,810,000	5,293,222	8,716,800	11,713,200
Milwaukee.....	3,250,000	2,526,134	4,160,000	5,590,000
<b>Minnesota</b> .....	4,815,000	3,742,585	6,163,200	8,281,800
St. Paul.....	3,800,000	2,953,634	4,564,000	6,536,000
Minneapolis.....	4,500,000	3,497,724	5,760,000	7,740,000
<b>Iowa</b> .....	12,090,000	9,397,218	15,475,200	20,794,800
Des Moines.....	800,000	621,818	1,024,000	1,376,000
<b>Missouri</b> .....	3,615,000	2,809,838	4,627,200	6,217,800
St. Louis.....	8,400,000	6,529,085	10,752,000	14,448,000
Kansas City.....	2,300,000	1,787,726	2,944,000	3,956,000
St. Joseph.....	350,000	272,045	448,000	602,000
<b>Total of Middle States</b> .....	158,645,030	123,310,340	203,065,638	272,869,452
<b>North Dakota</b> .....	1,555,000	1,208,658	1,990,400	2,674,600
<b>South Dakota</b> .....	1,635,000	1,270,840	2,092,800	2,812,209
<b>Nebraska</b> .....	5,875,000	4,566,472	7,520,000	10,105,000
Lincoln.....	800,000	621,818	1,024,000	1,376,000
Omaha.....	3,750,000	2,914,770	4,800,000	6,450,000
<b>Kansas</b> .....	8,517,100	6,620,103	10,901,888	14,649,412
<b>Montana</b> .....	2,555,000	1,985,920	3,270,400	4,394,600
<b>Wyoming</b> .....	860,000	668,454	1,100,800	1,479,200
<b>Colorado</b> .....	4,907,000	3,814,074	6,280,960	8,440,040
<b>New Mexico</b> .....	600,000	466,363	768,000	1,032,000
<b>Oklahoma</b> .....	250,000	194,318	320,000	430,000
<b>Indian Territory</b> .....	660,000	512,999	844,800	1,135,200
<b>Total of Western States</b> .....	31,964,100	24,844,800	40,914,048	54,978,252

TABLE 10.—*Increase of note-issuing power under proposed law—Continued.*

[Computed by the actuary of the Treasury Department.]

	Capital stock (Feb. 18, 1898).	Loanable power under existing law.	Loanable power under proposed law at beginning.	Loanable power under proposed law after 8 years.
Washington .....	\$3,978,000	\$3,091,988	\$5,091,840	\$6,842,160
Oregon .....	3,020,000	2,347,361	3,865,600	5,194,400
California .....	4,875,000	3,789,201	6,240,000	8,385,000
San Francisco .....	6,000,000	4,663,632	7,680,000	10,320,000
Idaho .....	600,000	466,363	768,000	1,032,000
Utah .....	1,750,000	1,300,226	2,240,000	3,010,000
Nevada .....	82,000	63,736	104,960	141,040
Arizona .....	400,000	310,909	512,000	688,000
Total of Pacific States .....	20,705,000	16,093,416	26,502,400	35,612,600
Total of United States .....	628,890,320	488,818,837	804,979,609	1,081,691,350

United States 4 per cent bonds of 1907, at 110 net, are taken as a basis.

[Especially note pages 175 to 180.]

TO SECURE TO THE PEOPLE A SOUND CURRENCY.

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JUNE 23, 1898.—Committed to the Whole House on the state of the Union and ordered to be printed.

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Mr. WALKER, of Massachusetts, from the Committee on Banking and Currency, submitted the following

VIEWS OF THE MINORITY.

[To accompany H. R. 10289.]

The undersigned respectfully dissents from the views of the signers of the favorable report on bill H. R. 10289, and recommends that all after the enacting clause be stricken out and the text of bill H. R. 10,333, introduced in the House by Mr. Walker and referred to the Committee on Banking and Currency, be inserted in its place.

WALKER BILL THE ONLY REMEDY.

I can see no conceivable relief from the present financial and banking conditions of the country, but on the other hand the certainty that it would be made worse by enacting any general bill referred to the committee, excepting the Walker bill H. R. 10333, and the bills before the committee have steadily grown worse, culminating in the Hill-Fowler bill, H. R. 10289.

Not one of the bills presented to the Committee on Banking and Currency, except the Walker bill, recognizes—much less fearlessly and closely follows—any known principle of economics or any recognized banking principle. Not one of them except the Walker bill safely and securely does any one of the four things absolutely necessary to be done to relieve the situation, viz,

1. To relieve the United States Treasury from the current redemption of every form of paper money and from any responsibility for maintaining the parity of our various kinds of money.

2. The devolving of the duty and responsibility of maintaining parity between all moneys upon the banks.

3. The allowing of banks to issue true bank currency—i. e., to issue currency against their assets.

4. The securely uniting all the commercial banks in the country through clearing houses into one strong body to maintain parity between all moneys.

From the first section to the last section the two bills are antagonistic.

From the opening to the close it is the

Hill-Fowler bill, } H. R. 10289. }	.....versus.....	{ Walker bill, H. R. 10333.
The results of } ratiocination }	.....versus.....	{ The results of investigation.
A putting into the present law things new, incon- gruous, and untried, or that have failed }	...versus...	{ A putting into the present law things old, harmoni- ous, and approved by ex- perience.

The Hill-Fowler bill (H. R. 10289) does not propose to and does not effect a solid union of the commercial banks of the country. It leaves each bank in its present inflexible, isolated, and panic condition. It thereby leaves out of its scope its avowed purpose and makes it impossible of being accomplished by the bill.

The Walker bill, on the other hand, is written in accord with recognized economics, and adheres in every sentence to sound banking principles. It secures a solid union of all commercial banks into a logical system and provides for the safe and complete transition of every commercial bank in the country, were it done even during a panic, from its present inflexible, isolated, and panic condition into an elastic, cooperative, anti-panic system, and makes it an integral part of a symmetrical and firmly constructed and completed whole, which is absolutely necessary as a condition precedent to any substantial relief of the United States Treasury and banking conditions in any safe and wise financial and banking legislation.

#### UNION OF ALL COMMERCIAL BANKS.

The warp and woof of the Walker bill is the taking of every commercial bank in the country out of its perilous condition of isolation, which invites and contributes to such panics as have frequently visited them during their whole existence, by allaying antagonism and shutting out all injurious competition and rivalry between banks, induced by their isolation, through clearing houses that now exist. Thus it is made sure that the banks will maintain parity, by making it for the interest of each bank to assist all other banks in doing so, by uniting all banks in one symmetrical whole to enable them in combination to maintain parity successfully, which is impossible in isolation, i. e., maintain the parity between silver coin and gold coin, and maintain the parity between all the various forms of our paper money and our coin money by making it profitable for the banks to do so, and forcing it upon unpatriotic and reluctant banks by a tax of one-half of 1 per cent per annum on deposits if the banks as a whole fail to maintain parity, and, unlike the Hill-Fowler bill, cutting the banks and individuals off from getting any gold out of the United States Treasury under any circumstances.

#### MAINTAINING PARITY.

The Hill-Fowler bill does the exact opposite of the Walker bill. Enacted into law it would call for more gold from the Treasury and heavier taxation to maintain parity under the present Treasury system, and make conditions worse than they now are.

Its effect can be certainly predicted from the experience of the past,

not only of this country but of all others. Isolated banks, each independent of the other, in no country have found it possible to keep silver coin and gold coin at a parity and freely circulating side by side as it is assumed they can do in the Hill-Fowler bill. Parity never has been kept between gold and silver, excepting where the banks were united to do it. Not an example can be found to justify the Hill-Fowler experiment. The experience of this country and of all others fails to justify it. The sharp rivalry between our independent banks, prior to 1834, compelled every bank in the country to redeem its circulating notes in silver dollars, because the value of the bullion in the silver dollar was 3 to 4 per cent less than the bullion in the gold dollar. After 1834 not a silver dollar was paid in redeeming its circulating notes by any isolated bank in the country, because the bullion in the new silver dollar was worth from 3 to 4 per cent more than the bullion in the gold dollar. Banks had silver dollars in their vaults, but they always insisted on a premium of 3 to 4 per cent in paying them out.

#### NEW YORK CLEARING HOUSE.

Parity is now maintained in this country by the United States Treasury, by the Treasury being a member of the New York clearing house, thus making the United States Treasury ultimately responsible for its transactions at an annual cost of scores on scores of millions of dollars taken from the people in taxes. To do this also requires that hundreds of millions of dollars shall at all times be in the Treasury, practically as a guaranty of its solvency, for maintaining parity.

The national banking law has come to be one of the most oppressive legacies of the civil war, in its continued forced loans on the people in compelling the purchase of United States bonds. The Hill-Fowler bill proposes to continue it for eight years. It differs as much from the freedom and independence of normal and free banking and the issuing of normal bank currency as does martial law and the provost-marshal from normal liberty and the jury trial.

#### BANK OF ENGLAND SYSTEM COPIED.

But the most illogical, uneconomic, and indefensible proposition in the whole list of things proposed to be done, and a thing not consistent in a law drawn on true banking principles, is the proposal to create in the United States Treasury a department of issue and redemption. Such a department would be not only useless, but wholly vicious.

If there is one thing more than another that is well settled in the management of banks, treasuries, corporations, and private firms, it is this, viz, that every dollar of what is designated "money funds" must be at the free use of the responsible manager of them, especially in times of panic.

The avowed reason for creating this department is to destroy the United States legal-tender notes directly or indirectly, either by changing them into a gold certificate or by canceling them outright. To resort to such a cumbersome device for that purpose could only have been suggested by the double-headed contrivance in the Bank of England. It has been condemned, as to the Bank of England, by nearly every writer on finance in Europe and by the best thought in England. It has never once been approved in the whole world by the only possible method of expressing a genuine approval of a financial device, viz, by imitation. I shall treat further on this subject in closing this report.

The Hill-Fowler bill attempts the impossible feat of grafting on to the Government Treasury, which has no banking resources or banking machinery, the double-headed Bank of England issue department and banking department system, which is unworkable excepting by a bank with the immense resources and in the strong position of the Bank of England. It is believed by every European financier to be a source of the most grave embarrassment and peril to the Bank of England in times of monetary stringencies or panic. The bill proposes this without taking cognizance of the conditions here as compared with the conditions in Great Britain. Should Great Britain wake up some fine morning and find in her coinage system \$500,000,000 of silver as full legal tender at 16 of silver to 1 of gold, she would go to a silver basis in a week, unless all her banks were united, either voluntarily or under compulsion of law, into a solid and indestructible union, as is provided in the Walker bill.

Should the Bank of France, with its hundreds of branches, be dissolved to-day into as many independent and isolated, antagonistic banks as it has branches, as our banks are now isolated and independent and antagonistic to each other, France would go to a silver measure of value in a week. Nothing keeps the paper money of France or Germany at a parity with specie and silver to the "gold measure of value" other than the union in each country of all the banks, practically if not actually branches of one bank and thus brought into a solid union, as is provided for the banks of this country in the Walker bill; and nothing keeps the money of the Empire of Great Britain to parity with the gold measure of value but her coinage conditions, in which there is no "primary legal tender silver money."

Our banks are loosely held together to-day only through the sub-treasury, with its \$200,000,000 to \$300,000,000 idle surplus, and sale of bonds to maintain parity in times of panic, taxing the people millions upon millions to do it, instead of keeping a balance of only \$20,000,000 to \$30,000,000 in the Treasury, as is the case in France, Germany, and Great Britain at comparatively no cost in taxation.

#### GOLD REDEMPTION OF SILVER.

To provide that our \$500,000,000 legal-tender silver dollars shall be redeemable in gold dollars by the Government, and for keeping an additional gold reserve for that purpose, is one of the most unnecessary, inconsistent, and remarkable, not to say ridiculous, provisions that could well be incorporated in a banking bill. Do they not know that this is demonetizing silver? This seems especially so in view of the ease with which France and Germany carry, at par with gold and as primary money, their great stocks of silver. But the objective claimed as of vital importance to be reached by the Hill-Fowler bill is the elimination of the United States notes from demanding gold of the Treasury, either by making them a part of the bank notes, viz, by substituting for them the "national reserve notes" of the Hill-Fowler bill, to be issued in place of them, or by buying them up by the Government with the taxes collected and then destroying them. The Hill-Fowler bill does not do this by inducing the banks to assume the identical United States notes by making it profitable for them to do so, as in the Walker bill, but by attempting to substitute a new "legal-tender bank note" for them. The reason given for proposing the destruction of the \$346,000,000 of greenbacks is that they "menace our whole financial system in their power to extract gold from the Treasury."

## SILVER DEMONETIZED.

But the Hill-Fowler bill proceeds, in the same bill that would destroy them, to add \$500,000,000 of silver dollars to their national reserve bank notes and other bank notes as abstractors of gold from the Treasury, and would have us believe that this is a cure for all our financial and banking ills.

Having experienced the delights of the vision of seeing the United States notes destroyed and of resurrecting a bank note from their ashes, in the proposed "national reserve note," and having exercised the supreme power of making this "national reserve note" the equal of gold as a legal tender, their power grows on what it feeds. They then proceed to destroy the \$500,000,000 silver dollars, as such, and to resurrect them as abstractors of gold from the Treasury; that is to say, they destroy the United States notes in order to save the country from the perils of having \$1,200,000,000 of currency, including the United States notes and resting upon them. In turn these \$346,000,000 rest upon the \$100,000,000 of gold in the United States Treasury. Then they immediately proceed to destroy these silver dollars as such and resurrect them. In addition to the paper money now in the country, and in addition to the bank currency, their bill will call for from \$200,000,000 to \$500,000,000 to add to our \$1,200,000,000. Adding this \$300,000,000 bank currency to the \$500,000,000 silver dollars, and this to the \$1,200,000,000 paper now out, makes \$2,000,000,000. This \$2,000,000,000 is to rest upon the \$500,000,000 of the gold redeemable silver dollars, and these silver dollars in turn rest on only \$25,000,000 of gold in the Treasury.

## FINANCIAL WISDOM OF THE HILL-FOWLER BILL.

That is to say, we now have \$100,000,000 of gold in the United States Treasury to redeem \$1,200,000,000 of currency, or eight and one-third per cent of gold to each dollar of paper.

The Hill-Fowler bill proposes to add from two to four hundred millions in bank paper and our \$500,000,000 silver, as abstractors of gold from the Treasury, and rest that \$2,000,000,000, more or less, ultimately on \$25,000,000 of gold in the Treasury, or one and one-quarter per cent of gold to each dollar of paper.

Of course this statement will surprise the authors of the bill more than anyone else who reads it. Their bills bear no internal evidence of any section of them having been brought to the practical test of being carefully "worked out" by trying any one of them on to our present system as modified by them, while every section, paragraph, and line of the Walker bill shows it to have been subjected to that test. Should every dollar of the United States notes be destroyed by the working of the Hill-Fowler bill, all the gold would then be released from the United States Treasury except \$25,000,000, which is set aside to redeem \$500,000,000 of silver dollars. Is it wise to retire \$346,000,000 United States notes and \$100,000,000 gold, and to substitute \$500,000,000 in silver and \$25,000,000 in gold in their identical office?

## BANKING CONDITIONS IN RURAL SECTIONS.

At this point the question will naturally be asked by those who live in sections of the country that have not felt the hardship of the present banking law: Why is there any need of amendments to relieve the present situation other than to "reduce the tax on currency," and to

"allow banks to issue currency to the par of bonds," and to "allow national banks with as little as \$25,000 capital in places of 4,000 people or less," as the bankers have been asking to have done for twenty years?

First, under the present law banks of small capital, or of \$100,000 capital, for that matter, can not exist where there are now no banking facilities, and the three amendments proposed would in no way improve present conditions, so as to permit them to exist.

On the other hand, to "repeal half the taxes on circulation," and "allow banks to issue currency up to the par of bonds," would still further reduce interest where it is now lowest and increase interest where interest is now the highest. It would have exactly the opposite effect of the rational amendment of the law provided in the Walker bill, viz, to halve the present rates in strictly country districts while not materially reducing or increasing interest rates in city districts.

#### INTEREST DOUBLE NORMAL RATE.

To-day interest on bank loans in country districts is nearly double the normal rate, and made so by the law, while they are at the same time made a small fraction lower to borrowers of city banks by the law. Under the present law, the normal rate of interest on the same security on the same time and on the same amount would be about 2.98+ per cent in the three central reserve cities, were no interest paid on deposits, as compared with 7.34 per cent in country districts, and these relative rates are compelled by the law; that is to say, they would be were there any strictly country banks, but there is not one strictly "country bank" to-day. They can not exist under the law as it stands. Under the Walker bill, with the currency provided therein, the rate would be 4.55 per cent in the country as compared with 2.98 per cent in the central reserve cities.

#### BANK CAPITAL.

Persons will hardly put their capital into a bank unless they are reasonably certain of receiving 6 per cent dividends on the bank stock. In order to show the rates of interest banks must charge under the present law, under the Hill-Fowler bill, and under the Walker bill to pay 6 per cent on the bank stock, I have worked out the following examples of the practical working of the three systems:

In the case of No. 1, formed under the *present law*, a country bank would be compelled to charge 7.34 per cent on its loans to pay 6 per cent dividends on its stock, or 1.34 per cent more than the stockholders could individually loan their money for and get 6 per cent, while a city bank could loan for 2.98+ per cent and pay 6 per cent dividends.

In the case of No. 2 a Hill-Fowler bank in a central reserve city could pay 6 per cent dividends on its stock and loan money at 3.03+ per cent.

But it is shown in the case of No. 3 that a Hill-Fowler country bank must charge 6.0+ per cent to pay 6 per cent on its stock. A rate of interest of 6 per cent would not make it an object to form a bank.

But No. 4, a Walker country bank, could loan money at 4.55 per cent and pay 6 per cent dividends.

No. 5 shows a central reserve city bank can loan money at 2.98 per cent or at less rates under the Walker bill than under the Hill-Fowler bill.



## No. 1.

## PRESENT LAW, COUNTRY BANK.

Capital .....	\$150,000.00
Deposits .....	57,143.00
Circulation, 90 per cent of \$37,500 bonds.....	33,750.00
<b>Total.....</b>	<b>240,893.00</b>
<b>Deductions:</b>	
Paid for \$37,500 bonds, at \$113.55.....	\$42,581.25
5 per cent redemption paid on \$33,750...	1,687.50
15 per cent reserve on \$57,143 deposits...	8,571.45
20 per cent currency not in circulation....	6,750.00
	<u>59,590.20</u>
<b>Possible loanable funds.....</b>	<b>181,302.80</b>
<b>Receipts:</b>	
Interest on \$42,581.45 paid for bonds, at 2.4 per cent..	1,021.95
INTEREST ON \$181,302.80 LOANS, AT 7.34+ PER CENT.	13,315.55
Exchange account .....	1,000.00
<b>Total.....</b>	<b>15,337.50</b>
<b>Expenditures:</b>	
Tax on circulation, 1 per cent.....	\$337.50
Salaries, etc.....	6,000.00
6 per cent dividend on \$150,000 stock....	9,000.00
	<u>\$15,337.50</u>

## PRESENT LAW, CENTRAL RESERVE CITIES.

Capital .....	\$150,000.00
Deposits .....	650,000.00
<b>Total.....</b>	<b>800,000.00</b>
<b>Deductions:</b>	
United States bonds, or 2.4 per cent capital,	
\$3,600, cost.....	\$4,087.80
Reserve required .....	162,500.00
	<u>166,587.80</u>
<b>Possible loanable funds.....</b>	<b>633,412.20</b>
<b>Receipts:</b>	
Interest on cost of bonds \$4,087.80, at 2.4 per cent...	98.11
INTEREST ON \$633,412.20 LOANS, AT 2.98+ PER CENT.	18,901.89
Exchange account .....	2,000.00
<b>Total .....</b>	<b>21,000.00</b>
<b>Expenditures:</b>	
Salaries, etc .....	\$12,000.00
6 per cent dividends on \$150,000 stock....	9,000.00
	<u>21,000.00</u>

## No. 2.

## HILL-FOWLER, CENTRAL RESERVE CITY BANK.

Capital .....	\$150,000.00	
Deposits .....	650,000.00	
Total .....	800,000.00	
Deductions:		
United States bonds required, equal to 2.4 per cent of capital, or \$3,600; market price, \$113.55; cost of bonds .....	\$4,087.80	
12.8 per cent of capital, or \$19,200 of United States notes exchanged for "reserve note," \$19,200, and 5 per cent redemption fund .....	960.00	
Reserve required .....	162,500.00	
		167,547.80
Possible loanable funds .....	632,452.20	
Receipts:		
$\frac{1}{2}$ per cent paid on reserve notes taken .....	96.00	
Interest on cost of bonds, \$4,087.80, at 2.4 per cent ..	98.11	
INTEREST ON \$632,452.20 LOANS, AT 3.03+ PER CENT.	19,180.89	
Exchange account .....	2,000.00	
Total .....	21,375.00	
Expenditures:		
Tax, $\frac{1}{4}$ per cent on \$150,000 capital .....	\$375.00	
Salaries, etc .....	12,000.00	
6 per cent dividend on \$150,000 stock .....	9,000.00	
		21,375.00

## No. 3.

## HILL-FOWLER COUNTRY BANK.

Capital .....	\$150,000.00	
Deposits .....	57,143.00	
Circulation .....	150,000.00	
Total .....	357,143.00	
Deductions:		
5 per cent on \$60,000 "reserve notes" ....	\$3,000.00	
5 per cent on \$60,000 "bank notes" .....	3,000.00	
5 per cent on \$90,000 "currency notes" ...	4,500.00	
Paid for 40 per cent to capital bonds required, at \$113.55 .....	68,130.00	
Reserve required .....	8,571.00	
Redemption fund on \$90,000 .....	1,000.00	
20 per cent currency not in circulation ....	30,000.00	
		118,201.00
Possible loanable funds .....	238,942.00	

## Receipts:

$\frac{1}{2}$ per cent paid on reserve notes taken .....	\$187.50
Interest on \$68,130 paid for bonds, at 2.4 per cent...	1,635.12
INTEREST ON \$238,942 LOANS, AT 6.0+ PER CENT..	14,352.38
Exchange account.....	1,000.00

Total .....	17,175.00
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## Expenditures:

Tax of 6 per cent on \$30,000 currency notes. \$1,800.00	
Tax of $\frac{1}{4}$ per cent on \$150,000 capital.....	375.00
Salaries, etc .....	6,000.00
6 per cent dividend on \$150,000 stock.....	9,000.00
	<u>17,175.00</u>

## No. 4.

## WALKER COUNTRY BANK.

Capital.....	\$150,000.00
Deposits .....	57,143.00
Circulation .....	150,000.00

Total.....	357,143.00
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## Deductions:

5 per cent redemption fund, \$120,000 cur- rency in actual circulation .....	\$6,000.00
15 per cent reserve on deposits .....	8,571.45
20 per cent currency out of circulation ....	30,000.00
	<u>44,571.45</u>

Possible loanable funds.....	312,571.55
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## Receipts:

INTEREST ON \$312,571.55 LOANS, AT 4.55+ PER CENT.	14,240.00
Exchange account .....	1,000.00

Total.....	15,240.00
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## Expenditures:

Tax on \$120,000 in actual circulation 0.2 per cent.....	240.00
Salaries, etc .....	6,000.00
6 per cent dividends on \$150,000 capital ..	9,000.00
	<u>15,240.00</u>

## No. 5.

## WALKER CENTRAL RESERVE CITY BANK.

Capital.....	\$150,000.00
Deposits .....	650,000.00

Total .....	800,000.00
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## Deductions:

Reserve required 25 per cent of deposit .....	162,500.00
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Possible loanable funds .....	<u>637,500.00</u>
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## Receipts:

INTEREST ON \$637,500 LOANS, AT 2.98— PER CENT.. \$19,000.00  
 Exchange account..... 2,000.00

## Expenditures:

Salaries, etc..... \$12,000.00  
 6 per cent dividends on \$150,000 stock... 9,000.00  
21,000.00

These examples of six banks show that country banks can be formed under the Walker bill and loan money at half to two-thirds the rates of interest charged by banks on loans at the present time, namely, at 4.55 per cent. They show also that the interest rates by country banks formed under the Hill-Fowler bill must be 31 per cent higher than under the Walker bill.

It will be noticed in example No. 2 of a Hill-Fowler city bank, that the "reserve" required in cash in city banks is..... \$162,500

The "reserve notes" the city bank must pay for in United States notes are about one-half what the country bank must buy, or..... \$19,200

The gold the bank must have in its own vaults is... 81,250  
100,450

Balance ..... 62,050  
 Thus the city bank can keep all its "reserve notes" in its own vaults and with its gold still use any lawful money for.... 62,050

It would not be possible for any one to make a demand upon this city bank for one dollar of gold. So it would be with every reserve city bank in the country under the Hill-Fowler bill.

Take example No. 3 of a Hill-Fowler country bank and the situation is reversed. It will be seen that the "reserve" required is \$8,571, while the bank must buy double the "reserve notes" the city bank buys. Only two-fifths of this reserve is required to be in cash; the other three-fifths may be in amounts due the bank from other banks, and only one-fifth or \$1,714.20 in gold.

It figures out as follows:

The "cash reserve" required is ..... \$3,428.40  
 \$1,714.20 to be in gold.

The "reserve notes" the bank must pay for in United States notes are ..... \$37,500.00

The gold the bank must have in its own vaults is 1,714.20  
39,214.20

Its "reserve notes" in excess of those it can use in its cash reserve are..... 35,785.80

It will also be observed that the country bank must invest \$68,130 in United States bonds and take out bank notes more than sixteen times as much as the city bank with the same capital. The city bank is only required to invest \$4,087.80 in bonds. The city bank will not bother with any currency. It cuts no figure in its business. But the country bank must pay out this \$35,785.80 "reserve notes" and also its \$37,500 "bank notes," a total of \$73,500. This paper money always finds its way into the city banks to be by them exchanged for the gold of the country banks in redemption and then returned to the country banks.

The Hill-Fowler bill forbids the massing of gold to secure in combination the maintenance of parity.

The Walker bill carefully provides for massing all the commercial gold in the country in the National Clearing House in New York and also in San Francisco in order to make sure the maintenance of parity as is now done under the present law. Not a dollar of gold can be had to-day, nor for thirty years, in redemption of a United States note, from the United States Treasury in Washington. Only in New York and in San Francisco can it be had. Only by this massing of gold can parity in gold redemption be maintained.

The Hill-Fowler bill, on the other hand, divides the gold into dribbles. In banks of \$25,000 there would be about \$285.71 in gold and so on up. In a bank of \$100,000 about \$1,142.86. The \$25,000 country bank is expected to redeem in gold over its own counter \$26,250 paper money with \$285.71 in gold, and the \$100,000 country bank to redeem in gold \$105,000 of its paper money with \$1,142.86 in gold when some crank or combination of panic-stricken people makes a raid on the bank.

The Walker bill provides for massing the gold. The amount the whole 10,000 banks are "required to keep" is from \$200,000,000 to \$400,000,000, in order to make the maintenance of parity absolutely secure, and leave the country banks to redeem the currency they issue as they choose in any kind of lawful money.

There is no other possible way of safely maintaining parity with gold when large amounts of other "lawful money" are in circulation. Our whole monetary system would break down in the first panic under the Hill-Fowler bill, and the Government would be again selling bonds for gold.

#### NO PROVISION FOR TRANSITION.

Again, there is no provision made to insure safety during the transition, were not the scheme absurd. The first country bank that transfers from the present system, under which the United States Treasury maintains the parity, to the Hill-Fowler system, where the banks are to maintain parity, will have to support with its \$286 in gold the whole \$1,000,000,000 of our paper money or stop issuing its circulating notes. But they say no; the Treasury will still do it. Of course it will still do it; but because it will always have to maintain parity, as now, the Hill-Fowler bill is not worth the paper it is written on. If one bank organized under the bill does not assume the obligation to relieve the United States Treasurer of maintaining parity, will two, or two hundred, or two thousand, or ten thousand? Just how many will be required to organize under the bill to remove from the Treasury the obligation to support the banks as to parity instead of the banks relieving the Treasury of maintaining parity? There is no possibility of the banks taking upon themselves that duty. The Treasury conditions are made worse by it.

Under the Walker bill not a bank organized under it assumes the slightest obligation to assume the maintenance of parity and thus relieve the United States Treasury of that burden until a certain time arrives, decided on by the Secretary of the Treasury, and then in an instant, at a signal agreed upon, every commercial bank in the country is in the system in a flash. All commercial banks are instantly united to maintain "parity," and the United States Treasury is as thoroughly relieved at once and forever from all responsibility as to paper money or coin money, other than police supervision, as is Smith, Brown, or any other citizen.

## DEFICIENCY IN BANK FUNDS.

Very carefully prepared tables are published in the appendix to this report which show that the total actual capital of both State and national commercial banks is about \$1,400,000,000, that the actual cash reserve held by them is \$560,000,000, and the total reserve held by those banks is about \$1,000,000,000.

All of these banks would be brought into the national system under the Walker bill.

They also show that the deficiency in 1897 in national-banking funds in the nine Southern agricultural States in which banks were well developed in 1860, is about \$284,000,000—in those nine States alone. It is safe to assume that had national banking been as free in these States—Alabama, Georgia, Kentucky, Louisiana, Missouri, North Carolina, South Carolina, Tennessee, and Virginia—as in 1860, the national-banking funds now in use there, in excess of what they are, would have amounted to \$371,000,000, and would be divided as follows:

As the masses of the people in the South during the slave period used comparatively little currency, checks and drafts were employed out of all proportion to their use in the Middle States where slavery did not exist. The banking funds of the Middle States were, capital 42 per cent, deposits 16 per cent, and currency 42 per cent. Resolving the \$370,933,761, estimated deficiency in banking funds in the above nine States, into the component parts of capital, deposits, and currency, the probable increase in each is shown:

Probable increase in capital .....	\$155,792,680
Probable increase in deposits .....	59,348,401
Probable increase in currency .....	155,792,680

## AGRICULTURAL STATES.

Taking the fifteen additional agricultural States that supported cheap money in 1896—Arkansas, California, Colorado, Florida, Idaho, Kansas, Mississippi, Montana, Nebraska, Nevada, Texas, Utah, Washington, Wyoming—the deficiency in banking funds would be fully \$500,000,000.

Under the Hill-Fowler bill the improved conditions for establishing banks are of such a trivial character that no perceptible increase in banks could be made, while under the Walker bill the chances of improvement, based upon the banking conditions existing in 1860, would be such that, in a brief period, banks would be established using additional capital, deposits, and currency to the amount indicated.

Of course the statement is made that this banking capital does not exist and can not be had at the South and in the other agricultural States, because of a lack of personal property in those States. This has not the slightest foundation in fact. There is not a single economic fact to justify that statement. Deducting the value of the slaves, the assessed value of personal property per capita in 1860 was \$85.78; in 1890 it was \$85.44. It is thought by conservative men—students of economic conditions of the South—that since 1890 the personal property has increased certainly one-quarter, and some put it much higher. It is thought that the personal property per capita in 1900, in the Southern States named, will reach \$125, or more. At any rate, what we know of the personal property in the South gives no justification for the statement that the lack of banking funds at the South is due to the poverty of the people there to-day, as compared with that of 1860, but rather it is due wholly to the oppressive national banking law.

## CITY BANK FUNDS.

The population of cities in the United States having 10,000 people or more is 20,781,474. The total banking funds of those same cities are \$2,283,320,423. Assuming that the banking funds in those cities serve half as many again people as live in those cities, it would bring the number of people served by that banking capital up to 31,172,211, and would give \$73.25 per capita.

Places in the country of less than 10,000 people have a population of 41,840,776. Deduct from that population 10,390,737 served by the city banks, and it leaves 31,450,039 to be served by the banks in the places of less than 10,000 people, or \$23.38 banking funds, or one-third as much per capita.

## CITY BANKS CAN NOT ISSUE CURRENCY.

The fact that the business of the city bank is such that it can not issue to a profit currency notes where currency is issued on the true banking principle, can not be too persistently insisted upon. Where currency is redeemed in the natural way by a city bank, it goes into the city clearing house the next morning with checks, drafts, and bills of exchange against the bank, and in a city where business is done by checks and drafts, and but a very small percentage of currency is used in proportion to the business done, the bank has no possible way of keeping currency in circulation. The only reason they have been able to do so in the last thirty years is because no genuine country banks could exist under the national banking law, and therefore comparatively no currency was issued in the country, and the city banks occupied with their currency the country districts, the country districts paying interest on what they should have had for nothing.

This state of things would end at once under the Walker bill.

## NEW YORK CITY BANKS IN 1860.

All the banks in New York in 1856 only issued 15 per cent of currency to their capital. It ran down to 11.42 per cent in 1860, and that currency was issued by those banks that had a country business, although located in the city. The Bank of Commerce, with a capital of \$9,000,000, had a circulation of only \$2,000, one-tenth of 1 per cent of its capital. The City Bank, with \$1,000,000 capital, \$2,000,000 deposits, issued no currency, while the East River Bank, whose name indicates the business of its patrons as with stevedores and with people who come into the city with boats, issued only 40 per cent to its capital.

## CHICAGO BANKS.

The Chicago banks have only 2.5 per cent of circulation to their capital. They hold United States bonds to an amount entitling them to take out \$1,215,000 in circulation and have taken out only \$616,365, of so little value is currency to city banks. If all the banks in Chicago were not forced to buy bonds as a license fee to do business probably not a dollar in currency would have been taken out.

## INJUSTICE OF 6 PER CENT TAX ON 20 PER CENT OF CURRENCY.

The Hill-Fowler bill exhibits the result of minds exceedingly fertile in devising ways for depriving country sections of banking facilities,

one of which is to tax currency issued in excess of 80 per cent to capital.

As deposits to a city bank are to it what currency is to a country bank, if the currency in excess of 80 per cent to capital is to be taxed 6 per cent, then deposits in a bank in excess of 80 per cent to capital should be taxed at the rate of 6 per cent per annum to make the conditions between city banks doing business by city methods and country banks doing business by country methods equal.

*Capital, surplus, and other profits in national banks in the central reserve cities of New York, Chicago, and St. Louis, October 5, 1897.*

Capital, surplus, and profits.....		\$149, 796, 620
Aggregate deposits .....	\$645, 633, 469	
The Hill-Fowler bill exempts currency from taxation to an amount equal to 80 per cent of capital.....	119, 837, 296	
Excess of deposits over 80 per cent of capital .....		525, 796, 173
Six per cent of deposits in excess of 80 per cent of capital—tax would be.....		31, 547, 770

Newly formed country banks, of \$150,000 paid-in capital or less, aggregating \$150,000,000 in capital, immediately upon getting into full operation, the items of their funds, taking the proportions of capital, deposits, and circulation from the condition of the banks in the Middle States in 1860, would run as follows:

Capital paid in .....		\$150, 000, 000
Deposits .....		57, 143, 000
Circulation .....		150, 000, 000
Currency to 80 per cent of capital.....	\$120, 000, 000	
Excess of currency over 80 per cent to capital .....	30, 000, 000	150, 000, 000
Tax of 6 per cent on excess currency would amount to.....		1, 800, 000

The tax of \$31,547,770 on the city banks would be as onerous and unjust to them and no more so than the tax of \$1,800,000 to the country banks on any part of their currency, for currency is to country banks what deposits are to city banks.

#### SAFETY OF BANKS ISSUING CURRENCY.

The safety of country banks issuing a large percentage of currency to their capital is questioned by the framers of the Hill-Fowler bill, but upon examination it will be found they are much safer than city banks with enormous deposit accounts. A comparison of example No. 2 with No. 4 will make the matter clear.



## CITY BANK, NO. 2.

**Resources:**

Redemption fund .....	\$960. 00
United States bonds .....	4, 087. 80
Reserve held .....	162, 500. 00
Loans .....	632, 452. 20
<b>Total</b> .....	<b>800, 000. 00</b>

**Liabilities:**

Capital .....	150, 000. 00
Deposits .....	650, 000. 00
<b>Total</b> .....	<b>800, 000. 00</b>

(Paid-in capital, \$76,700.)

One-half of loans prove a total loss and the half collected amount to .....	316, 226. 10
Redemption fund, United States bonds and reserve .....	167, 547. 80
<b>Total assets</b> .....	<b>483, 773. 90</b>
Owe depositors .....	650, 000. 00
Without stock assessment depositors lose .....	166, 226. 10
Collect the full assessment on the "paid-in" stock .....	76, 700. 00
<b>The depositors still lose 13.1—per cent.</b> .....	<b>89, 526. 10</b>

## COUNTRY BANK, NO. 4.

**Resources:**

Redemption fund .....	\$6, 000. 00
Reserve held .....	8, 571. 45
Loans .....	312, 571. 55
<b>Total</b> .....	<b>327, 143. 00</b>

**Liabilities:**

Capital .....	150, 000. 00
Deposits .....	57, 143. 00
Currency in circulation .....	120, 000. 00
<b>Total</b> .....	<b>327, 143. 00</b>

One-half of loans prove a total loss and the amount collected is. ....	156, 285. 77
Redemption fund and reserve .....	14, 571. 45
<b>Total assets</b> .....	<b>170, 857. 22</b>
Pay holders of currency .....	120, 000. 00
<b>Balance remaining</b> .....	<b>50, 857. 22</b>
Due depositors .....	57, 143. 00
<b>Deficiency</b> .....	<b>6, 285. 78</b>
Stockholders assessment 4.2—per cent. ....	6, 285. 78

In the case of the city bank the depositors lose 13.1 per cent of their deposits and the stockholders lose all their capital and are also assessed 100 per cent on the amount of it, and in the case of the county bank no one loses a dollar, but the stockholders lose all their capital and are assessed about 4 per cent on the amount of their capital.

#### FAILURES OF COUNTY BANKS.

During thirty-three years, banks of \$50,000 capital have failed for \$8,000,000 and paid 51 per cent dividends.

Banks with capital to above \$50,000 and \$100,000 capital or less have failed for \$17,000,000 and paid 57 per cent dividends.

Banks of over \$100,000 and \$200,000 capital or less have failed for \$16,000,000 and paid 61 per cent dividends.

Banks of over \$200,000 and of \$300,000 capital or less have failed for \$18,000,000 and have paid 63 per cent dividends.

Banks of over \$300,000 and of \$500,000 capital or less have failed for \$29,000,000, and have paid 64 per cent dividends.

Banks of over \$500,000 capital have failed for \$33,000,000 and paid 66 per cent dividends.

These figures show there is no material difference in the dividends paid by the different classes of banks. Under the supervision provided in the Walker bill not one small bank would probably fail where three have failed under the law as it now is.

#### LOW RATES OF INTEREST.

A low rate of interest all over the country, as in other countries, is not possible with separate, isolated, unsupported, and antagonistic bond currency banks, such as the Hill-Fowler bill provides. Solitary banks in any country make interest rates abnormally high in the agricultural portions of it, or even by combining them under the bond currency provision of the present law, with its prohibition of "true bank currency" or under the Hill-Fowler bill, which perpetuates the embargo on banks and "true paper money" to country districts and keeps up interest.

When the Government issues paper money directly or robs the citizens of the capital they get together to form a bank and before the bank is allowed to issue currency, by compelling the bank to buy bonds to the amount of the paper money it issues, it makes it impossible for a bank to live in country districts, because to issue paper money by a country bank is the same to it as accepting deposits is to a city bank.

No one thing can be suggested that collects such an enormous tax from the people in country districts in favor of cities. It ruins enterprise in the country and drives small manufacturing into cities.

How our national banking law cruelly robs and cruelly oppresses agricultural States can only be known by the most careful and painstaking investigation.

In so far as this prevails it puts the country at a tremendous disadvantage and out of touch with cities.

#### THE OFFICE OF BANKING.

The existence and whole office of banking and the use of paper money is of civilized society and a contrivance to substitute the use of "credit paper obligations," which cost the people nothing in exchanging products for coin in the exchange of products, which costs 6 per cent per annum on all coin used. Using paper money reduces the neces-

sity for coin to the lowest practical point, and this economizes expense by using only so much coin as it is necessary to use, thus reducing expense in exchanging products to the lowest practical point.

Banks and paper money are as necessary to modern civilization, in the transfer from man to man of the titles to products, as railways, steamships, canals, etc., are to the transfer of products themselves from place to place. Banks and paper money are only used to transfer the titles to these products. Any hindrance to or increased cost in the use of paper money, or of banks, by compelling an unnecessary amount of coin to be used, or by imposing taxes on paper money, works as much and even a greater injury to a community than a hindrance to or increased cost of the transportation of products. The small use of coin, in proportion to the use of banks and currency, by any people, is the sure evidence of its attainment in integrity, ability, acuteness—in fact, in civilization. Coin to banks and currency, in transferring titles to products from man to man, is as crude as to use the back of man and of the donkey, instead of the railways and the steamship, to transport products from place to place.

#### RIGHT OF THE PEOPLE TO FREELY USE WRITTEN OBLIGATIONS TO PAY.

At the very foundation of the right of men to life, liberty, and the pursuit of happiness lies the right of men to take and to give verbal and written "obligations to pay," to be satisfied on demand in the future.

To make it wholly impossible for men to exercise this right would relegate the race to barbarism. The right of man to unite with his fellows to give their joint obligation as a corporate person, to be jointly satisfied by them on demand, has become an inextricable part of and is fundamental to the continued progress of modern civilization.

The freely uniting of a certain amount of capital of five or more men and the uniting of those men into a corporate person, now called a bank, and to continue to them the right to give and to take "obligations payable on demand," has come to be recognized as a "right" of the citizen, little less sacred than the right of the "sole person" to do the same thing.

In the national-bank act the Government absolutely overrides this great and fundamental right of the citizens of this country and confiscates to its use capital collected by our citizens without the aggregating of which "exchanges of products" can not be made. This proceeding is never justifiably resorted to excepting in case of war, and this is the only modern nation that has continued or made such a forced war loan during peace.

#### COMPARISON OF THE PRESENT LAW AND WALKER BILL.

The following in a rough way still further illustrates the workings of a small bank under the present law and a bank under the Walker bill, leaving out the confusing elements of the previous examples:

The present law bank has a capital of .....	\$100,000
Buys of United States bonds .....	50,000
	<hr/>
Has left of its capital .....	50,000
Gets of circulating notes .....	50,000
	<hr/>
Has to loan .....	100,000
B & C—10.	

It then discounts notes running four months for \$2,000 for \$40 discount each for 50 men. Each man takes a draft on New York, where he owes \$1,000, for the \$1,000 to pay his debt, and takes circulating notes for \$1,000 to use in his neighborhood. This aggregates \$100,000, all the bank has to loan.

The bank must get interest at the rate of 6 per cent per annum on the fifty notes it discounts to pay 6 per cent dividends on its stock.

The Walker bank has a capital of.....	\$100,000
It issues its own circulating notes to the amount of.....	100,000

Has to loan.....	200,000
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It then discounts the notes running four months of \$2,000 each for \$20 each (for double the number or) for 100 men. Each man takes a draft on New York for \$1,000 to pay what he owes in New York, and the circulating notes issued by the bank for \$1,000 to use among his neighbors. This aggregates \$200,000, all the bank has to loan.

The bank only needs to get interest at the rate of 3 per cent per annum on the 100 personal notes it discounts to pay 6 per cent on its stock.

The premium on the United States bonds, taxes, sinking fund, etc., are so much that no money can be made on currency taken out on bonds.

The Walker bank does the equivalent of this, viz, it charges 6 per cent on the amount of its own capital it loans to the farmer on his \$2,000 note, say, \$20 on the \$1,000; and on the other \$1,000 it charges no interest, but exchanges its own circulating notes for the four month note of the farmer in consideration of the \$20 the farmer paid him on the whole loan.

If the Government issued all the paper money we used, and all the coin money, and no checks or drafts were used, interest would have to be from one-half more to double what it would be were we to use no Government paper money and as little coin money as we can get along with, but used instead all the "bank paper money" the people were willing to use, that the banks could keep at par with coin.

Under the Walker bill interest would not be materially higher or lower in cities, so little paper money can be used in cities. City business is mostly done with checks and drafts. Country people can not use checks and drafts to any great extent. They can only use "bank circulating notes" currency, which is to them the same as transferable certificates of deposits. The longer banks exist in a town, the more checks and drafts are used. Bank notes are the "deposits" of the farmer in the banks as technical "deposits" are such to the city merchant.

Under the Walker bill 3,000 country banks would soon be established where there are no banks now. The farmers can scarcely borrow a dollar now, in many sections of the country, on their crops of hogs, corn, wheat, cotton, hay, etc., soon to be marketed. They could borrow money of Walker banks for half what it could be borrowed for now of banks under the present law, could such banks be established under the present law, which is not possible.

#### ISSUE OF PAPER MONEY BY GOVERNMENT AND BY BANKS.

When the Government issues the money, greenbacks, Treasury notes, etc., or requires a bank to buy bonds to get it, a bank can only get it by parting with an amount of capital equal to the amount of such

money it gets into its vaults. The rates of interest are not reduced to the people by the use of Government money, whether it be paper money, silver money, or gold money.

When all banks issue their own paper money, as under the Walker bill, and any five reputable citizens can make a bank in such a way that the Government can compel the banks themselves to keep this paper money at par with silver dollars and gold dollars, competition among banks will make interest charged by these country banks that make this money as much lower than when they use Government currency as the amount of this paper money they use bears to the total amount of the loans of these banks. That is to say, from one-third to one-half lower rates of interest, after deducting what it costs the banks to keep their paper money at par with silver dollars and gold dollars, which is only a trifle.

When banks issue their own circulating notes the bank gets current rates of interest on all of its notes that are out of its possession and is compelled by competition thereby to charge lower rates of interest. The amount of such total lessened interest is the interest earned by its notes when out. When such notes are in its own vaults it is losing nothing by having them, for they cost nothing.

When the Government issues all money, say greenbacks, Treasury notes, etc., or silver dollars and gold dollars, the total interest on money loaned by banks that they are compelled to charge all customers is as much more than under the Walker bill as current rates of interest on the whole amount of such money. A bank can only get Government moneys by having its capital depleted by every dollar it has of it in its vaults. Therefore the current rate of interest on it is lost while it is idle in the bank. The only way the bank can stop loss of interest on it is by "unloading it" on other banks or on the borrowers of the bank. When the borrower has it the bank is making no profit on it to enable it to reduce interest rates to the farmer. This is why more and more money is being used by clearing houses in paying balances.

#### WALKER BILL CONFORMS TO THE SUFFOLK SYSTEM.

The Walker bill conforms to the old Suffolk system of New England from 1840 to 1864 in issuing currency by banks and to that of all other countries except the United States.

The truth of the statement made is shown by trying our system by the facts.

We have an excessive amount of coin—certainly from	
\$400,000,000 to \$800,000,000 more than there is any	
economic demand for—but putting it at the lowest	
amount there is an excessive amount of coin of .....	\$400, 000, 000
We have paper money earning the banks nothing .....	1, 100, 000, 000

Total.....	1, 500, 000, 000
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Interest on national-bank loans is necessarily higher than normal, provided our paper money was "true bank currency" issued against the assets of the bank as paper money is issued in every other country, as \$1,500,000,000 plus \$2,000,000,000 loans = \$3,500,000,000 is to \$1,500,000,000, or 42.8 per cent. This shows that with the banks issuing currency and submitting the volume of coin to economic laws interest rates would be reduced from 6 to 3.43 per cent. This considers only national banks.

Adding the \$700,000,000 loans of State banks it makes \$4,200,000,000 to \$1,500,000,000 earning no income. Including these the rate of interest would be reduced 35.7 per cent, or from 6 to 3.86 per cent.

Of course this is only approximately correct, as no account is taken of "current redemption" and expenses of many kinds, or of the sums of paper money not in circulation, but these do not very materially affect the result. It still remains that by enacting the Walker bill, interest rates would be reduced in approximately the proportion indicated, and almost wholly in country districts.

#### LOANS TO CAPITAL AND DEPOSITS.

That the results shown in the six examples of banks under the present law, under the Hill-Fowler bill, and under the Suffolk system of the Walker bill are substantially correct is proven by the actual experience of banks in the total loans by banks in proportion to their total capital and deposits in 1896 as compared with 1856. There are only two sources of loanable "funds" to a bank when it can not issue its own currency against its assets, viz, capital and deposits. There are three sources of loanable "funds" to a bank that can issue its own currency against its assets, viz, capital, deposits, and currency. All banks before 1864 freely issued currency against their assets with like results of low interest rates in all the States.

I give only a few samples:

	1896.	1856.
	<i>Per cent.</i>	<i>Per cent.</i>
Maine loaned to capital and deposits .....	84	130
Vermont loaned to capital and deposits .....	79	157
New York, outside of New York City, loaned to capital and deposits .....	78	166
The six New England States, including Boston, loaned to capital and deposits .....	88	125
North Carolina loaned to capital and deposits .....	88	162

This is the inevitable result in all agricultural sections when a bank can issue its own currency. This shows that money can be borrowed at one-third to one-half lower rates when banks can issue currency as provided in the Walker bill.

On the other hand, the advantage given cities under the national banking law and under the Hill-Fowler bill, in oppression of farming districts, is conclusively proved by the fact that while New York City could loan only 88 per cent to her capital and deposits in 1856, she loaned 97 per cent in 1896, 10 per cent more in 1896 than in 1856; while Maine loaned 35 per cent less, Vermont, 99 per cent less; New York State outside New York City, 113 per cent less; North Carolina, 85 per cent less; and the six New England States, including the city of Boston, 43 per cent less than in 1856.

Notwithstanding these facts, which were before them when the Hill-Fowler bill was compiled, they propose to continue their oppression of the farming communities with little or no relief for four years, and then dribble out relief for four years more, were their bill workable, which it is not.

## HOW MUCH CURRENCY SUFFOLK-SYSTEM BANKS ISSUED.

No better banking system ever has been seen than that of New England from 1840 to 1864, known as the "Suffolk system." It was precisely what is proposed for the whole country in the Walker bill. The specie held was 13 per cent to currency issued, and 8 per cent to currency and deposits.

Provisions in the various States were as follows:

## IN MAINE.

Banks not to issue currency in excess of their capital paid in, plus the specie in their vaults. Specie deposited in Suffolk Bank, Boston, to be counted as in their own vaults. Penalty tax of 24 per cent per annum on all currency in circulation during suspension of specie payments.

## NEW HAMPSHIRE.

Nearly the same as Maine.

## VERMONT.

Banks may issue currency to an amount double that of their capital. Penalty tax for suspension of specie payments of 12 per cent per annum on currency in circulation. Penalty tax of 1 per cent per annum on capital if bank fails to redeem its notes either in Boston or New York. Failure to redeem in one or the other of the cities for ten days incurs tax for the whole year.

## MASSACHUSETTS.

Substantially the same as Maine and New Hampshire.

## RHODE ISLAND.

Substantially the same as Massachusetts.

## CONNECTICUT.

May issue currency to amount of capital—must keep specie equal to 10 per cent of deposits and currency in circulation. Deposits of funds in a New York or Boston bank to be counted as specie against deposits and currency, when the currency is redeemed in Boston or New York.

It will be seen that the provisions of the Walker bill are substantially the same as these.

The Walker bill penalty tax for failure to maintain "parity" is one-half of 1 per cent per annum imposed on deposits in order to make the penalty fall equally on all banks. It is on deposits especially that specie should be maintained. It is depositors, not holders of currency, who ship specie abroad and who demand gold. If the penalty tax is put on currency the city banks would wholly escape the tax. The Hill-Fowler bill imposes no penalty for failure to maintain parity.

## INJUSTICE TO COUNTRY PEOPLE IN PRESENT LAWS.

Our country people have been so outrageously abused in the banking laws of the country in being deprived of banking facilities during the past thirty years that the very knowledge of "true banking" and

"true currency" has been lost out of the country. This most popular and useful agency known to civilization, viz, the bank, for loaning capital to the people, is hated and hissed, and justly so, were the banks themselves responsible for this outrageous banking system. It is hated for not doing what it is forbidden by law to do, and not for what it does. I stand by the country granger in his protest against his oppression rather than with the makers of Hill-Fowler bills, who, knowing their oppression, "keep the word of promise to the ear and break it to the heart." "Four years hence we will begin substantial relief and you will get it in eight years." They aggravate the curse by saying to him, "Go and come again and to-morrow I will give, when thou hast it by thee." Wait, wait, wait, until four years hence, eight years hence, eleven years hence! We are here under oath to legislate for the relief of our people now, and not to legislate to take effect in the days when our children will wear the mantle of authority and we are in our graves.

I know strong language is not argument, but there are times when men do not serve their fellowmen unless they use language strong enough to clearly characterize outrageous conditions and conduct. Even the Great Teacher characterized persons who bind heavy burdens grievous to be borne and lay them on men's shoulders and then do not touch them with so much as their little finger.

#### RELATIONS OF CITY AND COUNTRY BANKS.

Cities are built up by building up the country, and cities decay when the country districts decay.

The country banks are as necessary to the city banks as the mountain springs, their streams, and branches are to great rivers, and the country bank is as essential to the prosperity of the country as the city bank to the prosperity of the city.

The whole framework of every bill presented to the Committee on Banking and Currency, excepting the Walker bill, is drawn in despite of this axiom.

The prosperity of the cities can only be in the prosperity of the agricultural—the country—districts of the nation.

Every bill presented to the Committee on Banking and Currency, excepting the Walker bill, denies this proposition.

The oppressions, the rank injustice to the agricultural sections of the country perpetuated in the existing national banking law more than in the errors in legislation in all other national and State laws combined has contributed to the depopulation of the country and the uneconomic and undesirable swelling of city populations.

Men can not borrow money of individuals or of the officers of a bank they do not know, do not meet in their homes, in their churches, in their lodge rooms, in their trading, in the daily walks of life, etc. It is so in the country as much and no more than in the city. Country people can not borrow in cities or in large towns twenty miles from home—in other words, where they are not intimately known—excepting those with rare and exceptional means of acquaintance.

#### CITY BANK VERSUS COUNTRY BANK.

A strictly city bank in a reserve city, satisfying the infinite variety of wants of its customers, with its large individual deposit account, complex business expedients, and many forms of money obligations, differs very widely from a strictly country bank satisfying the limited



wants of its customers, with its large volume of circulating notes in the place of individual deposits, simple business expedients, and few forms of money obligations. They are as much alike and unlike as a Broadway omnibus and a McCormick reaper. Both are drawn by horses and men ride on both. The city bank with its way of doing business would be as useful in a rural community, or a country bank in a reserve city, as a reaper on Broadway or an omnibus in a wheat field.

The Hill-Fowler bill provides only for the omnibus, and the making of the reaper under it is impracticable.

Under the Walker bill both are kept constantly in view. Both can be constructed, and each used with equal advantage in its proper place.

#### RELATIONS OF CAPITAL TO BANKING.

In proportion as communities are advanced in both wealth and culture is capital aggregated in banks for the convenience of each and every citizen who, without capital, has sufficient integrity, ability, industry, and wisdom to make it reasonably certain that he will return the capital borrowed and what is agreed upon as interest or rent for its use. In modern society business can not be profitably done without nearly every doer of it has a partner in the enterprise, viz, the bank. Through borrowing of capital from a bank, and that only, it is made possible for the worthy poor boy of to-day to conquer to-morrow the place of the rich man of to-day.

These aggregated banks are of two kinds, and each bears a certain proportion to the aggregate of wealth.

1. The commercial banks, or "banks of deposit, loan, and discount," have to do wholly with personal property, and have capital and cash to about \$2,000,000,000 to \$26,000,000,000 total of personal property. Their aggregate capital is about 8 per cent to the total of personal property in the country. Adding \$2,680,367,000 deposits and \$1,000,000,000 currency, it will carry the percentage of banking funds to total personal property up to about 22 per cent banking funds to total personal property.

2. Trust companies of various names and kinds, such as savings banks, loan and trust companies, life insurance companies, etc., have to do wholly with realties, and have a capital of about \$8,000,000,000 to real estate property of \$40,000,000,000, their aggregate capital being 20 per cent to the real estate in the country.

Capital ceases to be capital when it ceases to afford an income. Capitalists therefore are always hunting for young men of integrity, ability, and industry who will borrow capital of them and pay a small rental on it, while the borrower of this capital makes a new fortune for himself in using the borrowed capital to develop the country.

These reservoirs of capital are the only things in civilized society that enable the man owning no capital to compete with the capitalist. Anything that hinders or in any way prevents the aggregating of capital in any community for the purpose of devoting it to loans to the worthy man who has no capital or not sufficient capital for useful, safe, and legitimate business, or increases interest on capital, is a fearful curse to the country. Very careful and conservative estimates show that the agricultural and suburban sections of our country are deprived of \$800,000,000 of banking funds, as compared with their per capita and city per capita bank funds, as compared with their bank funds to their personal property in 1860 and to-day, or fully 15 per cent to the total bank funds in the country. The Hill-Fowler bill provides the begin-

ning of a modicum of relief to these people in four years, to be consummated in eight years. This final relief is so small at the best as to be unworthy of the effort, and this promise even is of very doubtful fulfillment.

Under the Walker bill the relief in the additional banking funds to the sections of the country now destitute would surely come, and at once.

**\* BILL H. R. 10339 AS COMPARED WITH BILL H. R. 10333.**

I am constantly met with the statement, "Your bill is too long; why don't you make it shorter and more simple?" as if a bill dealing with the most complex and worst financial and bank system any civilized nation ever had, and at the same time maintained parity, according to the testimony of writers on finance and of financiers of great experience, such as Hon. Lyman J. Gage, Secretary of the Treasury; the Hon. Charles S. Fairchild, ex-Secretary of the Treasury; the Hon. James H. Eckels, ex-Comptroller of the Currency, and many others, could be "as simple as simple can be."

Certainly bill H. R. 10339 is short and simple enough. I drew it to accomplish two things: To show how unreasonable is the remark quoted, and second, to show how simple a bill would have accomplished in 1866 to 1870 precisely what my bill will accomplish to-day. If it had been passed then it would have saved the country from a sea of troubles. Had such a bill as H. R. 10339 been passed on April 12, 1866, with the bill of that date authorizing the Secretary of the Treasury to sell bonds to secure funds to cancel "United States notes not to exceed \$10,000,000 in the first six months and \$4,000,000 per month thereafter," our difficulties would have ended then and there. It was all the legislation needed then. It would be all the legislation needed to day had we no silver dollars, no United States notes, and no Treasury notes. The law of July 12, 1866, authorizing the retirement of the United States notes, would not have been repealed, as it was in January, 1869.

Walker bill H. R. 10339, in the conditions of 1866 to 1873, is the financial and banking equivalent of Walker bill H. R. 10333 in the conditions of 1898.

Had bill H. R. 10339 passed any time previous to January 14, 1875, the legislation of that date again passed to retire the United States notes would not have been again needed and again passed only to be again repealed on May 4, 1878.

Had our statesmen of that time enacted such a bill the New England banks would have returned immediately to the Suffolk system of current redemption in Boston, a "large central commercial city," which the present law most foolishly and viciously forbids.

New York would soon have joined New England, and every State bank in the country would have been brought into the system precisely as the Walker bill provides for to-day, and New York would soon have taken the place for the whole country that Boston held for New England up to 1864.

In fact, that bill at that time would have given the country, by the necessary but voluntary combination of the banks in the country, precisely what the Walker bill would give the country to-day. There can be no doubt that the banks themselves, without any action of the

United States Treasury under bill H. R. 10339, would have resumed specie payments long before 1870, when the premium on gold touched 14.9, and run down in 1871 to 11.7, etc., and up again to 15.1 in 1875. Had such a bill as H. R. 10339 passed any time between 1866 to 1878, every citizen would have had his "right to life, liberty, and the pursuit of happiness" in money matters restored to him.

All business men, merchants, manufacturers, farmers, bankers—all classes—were clamoring for resumption of specie payments ever after 1866, and they directed and controlled the banks. The banks had two to three times the gold during the whole period from 1867 to 1879 that Secretary of the Treasury Sherman had in the United States Treasury when we resumed in 1879. As a matter of fact, to the banks belongs the credit of the conditions making resumption of specie payments by Secretary Sherman possible in 1879.

While it is true that without the hearty and most active assistance of the banks Secretary Sherman could not, by any possibility, have resumed specie payments in 1879, it is also true that had the Government rendered no assistance whatever the banks could and would have resumed long before 1873 under such a bill as H. R. 10339 as surely as the banks can and will maintain parity between silver dollars and gold dollars and between all our paper money and specie to-day under Walker bill H. R. 10333 as law, for there is no conceivable relief excepting under a law drawn on the lines of the Walker bill.

The Walker bill is simplicity itself as compared with any other general bill that has been before the Committee on Banking and Currency. It is as unjust to criticise the Walker bill of to-day because it is long enough and none too long, and complex enough and none too complex, to meet all the chaotic and complex conditions that do exist to-day, and to surely settle them, and without the slightest shock to our financial and banking conditions during the transition, even during a panic, as it would have been to have criticised the Walker bill, H. R. 10339, offered before 1875, because it "was not long enough" and "complex enough" to meet conditions not then chaotic and not complex.

A condition a hundredfold more difficult than confronted Alexander Hamilton and Albert Gallatin in this country or John Locke or Sir Isaac Newton in England can not be settled by ratiocination, as is attempted by the framers of the Hill-Fowler bill. To solve the problem, patient investigation and severe study are necessary to the brightest and ablest men. Late comers are welcome, but the Hill-Fowler bill shows the result of their insisting on taking the front seats.

What was the Republican party doing in this matter from 1866 to 1873? What is it doing now? What was the Democratic party doing from 1866 to 1873? What is it doing now?

#### THE SUBTREASURY SYSTEM.

Never before was a practice continued so long after its substance had departed as our subtreasury system. The national subtreasury system as now administered, violates every principle it was established to put into practical operation.

When it was established the idea of Jackson was to keep the Government Treasury entirely independent of banks and to be itself in antagonism to banks.

To-day it has become the fundamental and responsible bank of all banks in its connection with the New York Clearing House, the

guarantor of the value of all banking funds as well as paper money, and the reservoir from which is drawn, in times of monetary stringencies and panic, the gold for shipment and the gold that keeps the solvency of all banks. In fact, it has become the exact opposite of what Jackson made it and intended it to continue to be. The Hill-Fowler bill intensifies its subserviency to banks as the guarantor of the value of their funds and the supplier of gold to banks and to brokers, both foreign and domestic.

Under the Walker bill every one of these conditions would be reversed. The National Clearing House would be first of all the servant of the Government and the guarantor of the Government funds and the receptacle of all gold and the guarantor of parity, and in turn the furnisher of all needed gold for domestic use or shipment, and this at a profit to banks, whose servant it would be. It would be able to protect the commercial gold in the country, as the banks of England, France, and Germany each protect its gold. It would also maintain parity and pay out gold and silver, precisely as does the Bank of France and the Bank of Germany.

#### EVILS OF SUBTREASURY SYSTEM.

"Whatever may have been the condition of the banks of the country which seemed to justify the establishment of the subtreasury, it is to-day the greatest curse that afflicts the finances of the country. It not only places duties, powers, and opportunities in the hands of the United States Treasurer such as no human being should ever be intrusted with, but it compels him to do what is made a misdemeanor, visited with severe penalties when done by a bank, and would not be submitted to for a day if done by an individual, namely, it locks up the money of the people. The making of any loan upon the security of United States or national-bank notes, or agreeing for a consideration to withhold the same from use; in other words, the "locking up" of money, is made a misdemeanor, and the bank committing the offense is punishable by a fine of \$1,000 and a further sum of one-third of the money so loaned. The officers of the bank making the loan are also subject to a penalty equal to one-quarter of the money loaned.

"This provision of law is not applied to individuals, because locking up money is an offense they do not commit without the assistance of banks. These severe penalties were provided because the locking up of money was an injury to the public; and furthermore, the injury is in exact proportion to the amount of money locked up, and is not made any greater or less by the 'locking up' being done by a bank, an individual, or by the United States Treasurer.

"Yet, in the face of the enactment of a law by the United States Government severely punishing a bank for withholding currency from circulation, it maintains the subtreasury in violation of every sound maxim of finance, in violation of the laws governing the banks, and in the face of the damage to the industries of the country admitted to be done by it every day of its existence, now necessarily inflating and now necessarily curtailing the volume of the circulating medium by the accumulation in or the disbursements from the Treasury."—[Money, Trade, and Banking (p. 81), by J. H. Walker. Houghton, Mifflin & Co., Boston, 1882.]

The Hill-Fowler bill would perpetuate and intensify every one of these Treasury abuses.

The Walker bill would correct every one of them, and that at once.

## TREASURY CONDITIONS.

No one who knows them would make a comparison between Hon. John G. Carlisle and Hon. Lyman J. Gage to the detriment of either. Each stands at the head of his profession, Hon. John G. Carlisle in integrity and as a lawyer and eminent parliamentarian, and Hon. Lyman J. Gage in integrity and as a financier and banker. Each has held the Treasury portfolio under a condition of deficit in Treasury receipts to meet Treasury expenditures. One an eminent lawyer under Hon. Grover Cleveland, the other an eminent financier under William McKinley. The strictly "Treasury conditions" were identical under each. Under Carlisle confidence was destroyed by conditions entirely outside the Treasury proper. Because of these conditions we had the panic of 1893, with ruined private credit, the sale of United States bonds at ruinous prices, and its millions and billions of dollars in shrinkage of values and the wrecking of fortunes and distress of the people. Under Mr. Gage, even in war, confidence is assured, and by conditions entirely outside the Treasury proper. The Hill-Fowler bill leaves us in exactly the same condition as Mr. Cleveland and Carlisle found, and the same results will follow the same conditions.

The Walker bill completely separates the United States Treasury from our financial institutions immediately and forever, and makes the Carlisle-Cleveland condition of 1893 impossible.

It is no answer to cite tariffs or financial theories of administrative officers. Assuming that losses would occur under one tariff and gains under another, under the Walker bill as law they could not materially affect the price of United States bonds or cause a panic originating in the condition or administration of the United States Treasury, for the Treasury would be eliminated from finance and banking. Opinions as to the changes or threatened changes in the management of the United States Treasury could not affect the business of the country, for Treasury conditions would be fixed by law, and unalterable by a Secretary.

Our Treasury and banking conditions would be absolutely independent of each other, each under the management of its own officers, and neither could control or materially affect the other.

Our financial system would then be founded upon a rock like that of France. Our system then would be more like that of France than that of any other country, but superior to it as institutions built up from the bottom, like those of this country, are more enduring than those built down from the top, like that of France and its bank.

When specie payments were suspended in 1870 gold went to a premium of only  $1\frac{1}{2}$  per cent in the paper money of France, and soon fell to 1 per cent. It did not rise again until the payment of the indemnity to Germany, and never rose above  $2\frac{1}{2}$  per cent premium at any time, and was at that point only for a short time—and this with France conquered, its government destroyed, and lying helpless at the feet of Germany.

With our inexcusably vicious Treasury system, and wholly because of the union of our banks with the quick assets of the Treasury and the making of the soundness of our currency dependent on the price of United States bonds, a gold dollar was worth during 1862 \$1.13. It sold for \$1.45 in paper money after Gettysburg on July 3, and after Vicksburg fell on July 4, 1863, and when our final victory was assured. After Sherman captured Atlanta, September 2, 1864, a gold dollar averaged to sell all through 1864 for \$2.03 in paper money. Then no doubt existed as to the stability of the United States Government. During Sherman's march from Atlanta to Savannah and up to Virginia

in the early spring and until Appomattox on April 8, 1865, gold sold for \$1.57 in paper.

The salvation of France when her Government was utterly destroyed and a Committee of Safety was trying to make terms with her conquerors camped in her capital and Germany held her chief places, the Bank of France stood like a shaft of marble in surrounding chaos, a beacon of liberty to her people. Look again at this significant fact. A gold dollar during all that time could be bought for \$1.01 in French paper money, excepting for a few months after peace it went up in price to \$1.02 $\frac{1}{2}$ , in her paper money, for a brief time.

The Hill-Fowler bill is potential only in such financial humiliations for the future as those from 1862 to 1879 and of 1893, as surely as under like conditions history will repeat itself.

Under the Walker bill they would be impossible. It would correct every evil. As independent, self-sufficient, and even stronger than the Bank of France is its system of union of every commercial bank in the country into one whole. A system democratic to each bank and still a unit in a completed whole.

#### WASTE OF THE PRESENT SYSTEM.

The direct and inevitable waste in the present system demands immediate action. The Treasury has only kept its place in the New York Clearing House and kept the parity between silver coin and gold coin and between our paper money and specie by keeping in the Treasury an average available cash balance of \$204,000,000, including "agency accounts," for the eighteen years from 1880 to 1897, inclusive—about \$120,000,000 in free gold. Allowing for a "working balance" of more than England, France, or Germany averages to keep—say \$35,000,000—leaves \$170,000,000.

Collected by taxes from the people and needlessly kept in the Treasury, \$170,000,000, worth to the people, 6 per cent .....	\$10, 200, 000
The needless expense of the subtreasury .....	1, 000, 000
Annual Treasury loss .....	11, 200, 000

It was stated by Secretary Gage and Ex-Secretary Fairchild, and is conceded by all writers on finance, that all currency that is issued, as it is in Great Britain, France, Germany, and all other nations excepting the United States, and "kept out" by banks, is earning the banks the rate of interest charged its customers on loans, and that it invariably lessens the rates of interest charged in the same proportion that the average currency actually out in circulation bears to the total loans and discounts of banks. Under the present banking law there is practically nothing made on bank currency when banks are compelled to buy bonds to get it at the prices prevailing from 1860 to 1892, and in any prosperous times. There is over \$1,000,000,000 of paper money in circulation in the country. At least \$800,000,000 would be circulated by banks if the Walker bill was made a law; or if it was issued here as it is issued in all other countries, at 5 per cent, it equals \$40,000,000. That would then be saved to the people in lower rates of interest on bank loans.

At the very least estimate of the cost the direct and indirect tax on the people is \$50,000,000 per annum. It is really many millions more,

mostly falling on the agricultural sections of the country, as large city banks buy United States bonds as an investment.

Adding to this loss the premiums paid on United States bonds the Government was forced to buy with the taxes on the people accumulated in the Treasury, in order to save our whole banking system from wreck, and the losses from monetary stringencies and panics which are wholly chargeable to the system, it can be conclusively proven to any body of unprejudiced, plain men that hundreds of millions into the billions would not cover actual unnecessary and inexcusable loss in recent years. The conditions that prevailed in 1893 are sure to recur again to a greater or less extent unless the bank act is wisely amended. Some aspects of the situation even now are more threatening and portentous of evil than they were from 1880 to 1892.

In view of the incontrovertible facts already stated it appears that the solution of our financial and banking ills is not possible by any bill drawn on the lines of the Hill-Fowler bill, or any bill yet presented to the Committee on Banking and Currency, excepting only the Walker bill, H. R. 10333.

#### COMPARISON OF HILL-FOWLER BILL AND WALKER BILL.

The Hill-Fowler bill is written in obliviousness of the fact that banking is wholly a voluntary business and comparatively few of those engaged in it receive pay. Banking law should contain no mandatory provision that by any safe permissible form of application of small pressure can be avoided. The Hill-Fowler bill is fatally mandatory in several matters.

The Walker bill, in this respect, is wholly different. It sets up only a very few very wide boundaries and allows banks to manage their own business in their own way as far as it is safe to the people who borrow money from them.

The Hill-Fowler bill does not relieve the United States Treasury from the current redemption of every form of paper money and from any responsibility whatever for maintaining the parity of our various kinds of money.

The Walker bill securely does both.

The Hill-Fowler bill does not devolve these duties upon the banks of the country.

The Walker bill securely does it.

The Hill-Fowler bill does not allow banks to issue "true bank currency," viz, currency against their assets, to any proportion that would foster country banks.

The Walker bill allows its issue to the amount of the capital of the bank.

The Hill-Fowler bill makes no attempt to securely unite all the commercial banking associations of the country into one compact system to securely and safely do the things it proposes.

The Walker bill securely does it.

The Hill-Fowler bill runs counter to all writers on finance and the judgment of practical financiers and bankers, who all agree in the following as of the first importance in providing a paper money currency, viz, that it shall be—

1. Safe.
2. Freely issued.
3. Abundant.

## 4. Uniform.

## 5. Elastic.

The currency provided in that bill fails at every point. It is far from being as safe in being guaranteed by the Government as that of the Walker bill. It is neither as freely issued, as abundant, as uniform, nor as elastic.

## MONEY IN EXISTENCE.

The Hill-Fowler bill takes the six kinds of paper money: \*

1. United States notes (legal tender).....	\$346, 681, 016
2. Treasury notes.....	101, 575, 280
3. Currency certificates.....	29, 130, 000
4. National-bank notes.....	228, 203, 926
5. Gold certificates.....	37, 466, 149
6. Silver certificates.....	398, 768, 504

Legal tender coin: †

8. Gold.....	760, 274, 281
9. Silver.....	461, 180, 422

and proposes to destroy three kinds of this paper money, United States notes and gold certificates and national bank notes, and substitute three new kinds, all "bank currency" notes:

National reserve notes,

National-bank notes,

National currency notes,

leaving seven kinds of paper money afloat, as now. (The Treasury notes will be disposed of by coining silver bullion to pay them as the country grows.)

## WALKER BILL APPROVED.

Every word that discusses general principles in the report accompanying the Hill-Fowler bill approves the Walker bill and condemns that bill, and yet their bill continues the hardships of the present system. The report says:

"The ideal condition will be reached when, the person having made the necessary deposit, the bank can furnish him either a check book or its notes with equal ease and at equal cost, leaving the customer to select the form of demand obligation which will best serve his legitimate business purposes. As a matter of fact, the same management of the bank which will render the check safe will make the note safe. But, as has been said earlier, the note is to go everywhere and be used by people unacquainted with each other or with the bank. To facilitate its use, therefore, it must be issued under a system which can be readily understood and which will give to the people generally such assurance of the goodness of the note that it will be accepted without hesitation by everyone.

\* \* \* "It is obvious that the issue of a banking currency based purely upon assets, without either bonds or reserve notes, will involve no risk of undue inflation or of loss to the note holder.

\* \* \* "The people will have the use of nearly double the amount of coin and currency at about one-half the rate of interest they are now compelled to pay. Thus the capacity to make larger loans means the

\*In existence June 16, 1898, per Treasury report.

†Estimate by Treasury Department for June 1, 1898.



capacity of the banks to reduce interest rates without loss of profits. It means that if any bank undertakes to resist the natural law of decreasing interest under increased facilities, new banks may be formed *without sinking their capital in bonds purchased at a premium*, and may compete for the legitimate profits afforded by reasonable interest rates. More than this, a currency based upon commercial assets, and not rendered rigid in volume by the deposit of special security, comes back promptly to the issuing banks for redemption. \* \* \*

"Mr. A. O. Eliason has examined all the bank failures whose accounts have been closed, numbering one hundred and one, and found that had all the banks in the national system issued an amount of currency equal to their capital, or one hundred per cent, the assessment on the same to cover losses would have been infinitesimal, being only one-nineteenth of one per cent per annum."

After thus approving most heartily and thoroughly the principles of the Walker bill, which provides the annual collection from the banks of four times the amount necessary to make the Government safe in guaranteeing the currency notes banks would put in circulation, they present a bill which leaves 60 per cent currency to capital without the guaranty of the Government, and also compels the country banks to "sink their capital in bonds purchased at a premium" to the tune of 40 per cent to their capital, and furthermore discredits their currency issued against their assets by twelve disabilities.

The lack of appreciation by the framers of the Hill-Fowler bill of true principle and practice in issuing and redeeming paper money is shown by their proposition to destroy the "endless chain," as follows:

"Believing that this bill, if enacted into law, will relieve the Treasury by destroying the 'endless chain.'"

Secretary Gage and ex-Secretary Fairchild, as everyone knows is true, testifying in answer to the chairman, recognized the "endless chain" of currency redemption as an inherent and necessary condition to sound paper money, as follows:

The CHAIRMAN. Can you suggest a more apt illustration of the necessary inevitable constant flow of currency in and out, coming in contact potentially with the specie it represents, than an endless chain which never ceases for an instant to move potentially or actually, and that anything that impairs any link of the chain does the currency system injury? Can either of you gentlemen suppose a more apt illustration?

Secretary GAGE. I think there are a dozen you might use.

The CHAIRMAN. Will you suggest any one of the dozen?

Secretary GAGE. Say individual buckets. We have adopted the endless chain as a figure of speech, which probably conveys nearly the idea involved, namely, that whoever has demands against the Government or anyone else can take those demands and have them realized in redemption money, in specie. If these obligations are again issued, the new holder can do the same, and so there is a sort of circle established, or, it may be, on the one hand, the notes flow out, and in the course of the movement of trade or commerce or distrust the notes come back in a circular movement. That is not a horrible thing; it is natural, reasonable, and proper, and the issuer should never complain. Let him meet his liabilities on demand.

The CHAIRMAN. Is not that what will take place in making a redemption fund?

Secretary GAGE. I think it is.

The CHAIRMAN. Can you suggest anything further, Mr. Fairchild?

Mr. FAIRCHILD. No, sir; I think that is perfectly true.

## CURRENCY PROVISIONS OF THE HILL-FOWLER BILL.

The Hill-Fowler bill puts the mark of Cain on its national currency notes. This money is for our country people. Not a dollar of this money will be issued by banks in redemption cities which have half the paid-up capital of national banks.

- SEC. 30. (1) It is taxed 6 per cent per annum if issued above 40 per cent to capital.
- SEC. 30. (2) If in the vaults of the bank and not in use this excess over 40 per cent is still taxed 6 per cent.
- SEC. 33. (3) In liquidation only gold coin can be deposited to cancel these notes.
- SEC. 23. (4) Must put up with the Government 5-per-cent gold "guaranty fund" on them, in addition to the current redemption fund it puts up.
- SEC. 22. (5) Has a separate "current redemption" from the other two kinds of bank money.
- SEC. 22. (6) Must be marked "plainly and prominently," so as to attract attention to its being a poorer kind of money, that it "belongs distinctively to some one clearing-house district."
- SEC. 22. (7) Can not be paid out by any bank out of its "redemption district."
- SEC. 22. (8) Has a clearing-house district made especially for it. The district is not for and does not include the other two kinds of bank currency.
- SEC. 22. (9) No reserve 5-per-cent or other fund is provided for their current redemption in exception to the other two kinds of notes.
- SEC. 14. (10) No funds of an insolvent bank can be used to pay any of these notes until the other notes are paid.
- SEC. 15. (11) That the Government has no interest in making this "currency note" good money is rightly made conspicuous in the bad form designedly given these notes by this provision. "It [note] shall also bear upon its face the statement that it is issued in accordance with the provisions of this act." These things will sufficiently damage these "national-currency notes."

Under the Walker bill there is provided a currency note with as strong a Government guaranty as now. Only such notes are used in Canada, Scotland, France, Germany, England, and all other first-class nations. The Walker bill adds the guaranty of the United States Government. The Walker bill provides that everyone of them shall be immediately paid by the United States Treasurer in case of the insolvency of the association issuing them. The Walker bill makes an appropriation to pay these notes of every association in case of its insolvency. The Walker bill provides a way for the United States to collect of banks and have on hand several times more money than it can ever pay on this guaranty.

The framers of the Hill-Fowler bill are not willing to have the circulating bank notes provided in their bill and issued by the Government as money, used to pay the "salaries and other debts on demand owing by the United States to individual corporations and associations within the United States," but finding such a provision in the law as to national-bank notes, repeats it.

Under the Walker bill no such discrimination against any form of our money is made. All kinds of paper money are made and kept as good as the best by the Government.

#### GREENBACKS NOT DESTROYED BY THE WALKER BILL.

Neither does the Walker bill destroy the United States notes. The Hill-Fowler bill does destroy them. The Walker bill keeps them exactly as they now are, and puts their current redemption on the banks. The Walker bill proposes to destroy all the gold certificates and silver certificates and pay out to the people the gold and silver dollars in their place. Thus the Hill-Fowler bill provides six kinds of paper money in permanency, no one of them legal tender, in violation of sound banking principles, while the Walker bill provides but one, viz, currency notes, in accord with common sense and sound banking.

The Hill-Fowler bill does not make the United States Government as now responsible for the immediate payment of every dollar of the currency notes issued by it to a bank in case of insolvency and directly out of the United States Treasury, and without qualifications or delay and regardless of all contingencies.

The Walker bill makes the Government of the United States the guarantor of every dollar of currency issued by it to a bank as now, and makes an appropriation from the Treasury in the body of the law to secure the immediate payment of such notes by the Treasurer as certain as it is to-day.

The Hill-Fowler bill makes confusion in redemption by providing two distinctive redemption agencies for its three kinds of circulating bank notes, and one of them outside the banking system.

The Walker bill provides one redemption for its one kind of bank notes, and that inside the banking system.

The Hill-Fowler bill appears to be drawn in the interest of large city banks. It gives such banks every advantage and unfairly discriminates against country banks.

The Walker bill is drawn in fairness to large banks and small banks, city banks and country banks, for farmers, for merchants, and for manufacturers.

The people having been thoroughly educated in the idea that no true bank currency, that is to say, currency issued against the assets of the bank and relying wholly upon them for payment in case of insolvency, can be safe for them to have in their pockets, therefore it becomes absolutely necessary to have all currency guaranteed by the Government, as now. A guaranty may be given in five different forms—by a mortgage, by pledging bonds, by an agreement, by indorsement, and also by certifying to the genuineness of a paper and that the certifier is in possession of funds to pay it, like certifying a bank check.

All but the note secured by mortgage depends wholly upon the solvency and amount of capital possessed by the party making the security in proportion to the amount guaranteed, whether it be a person or the United States Government. No one can deny that an appropriation made in the body of the banking law out of any moneys in the Treasury not otherwise appropriated to pay the notes of an insolvent bank is as good a security and more easily availed of, and is tantamount to a Government bond. "To guarantee" is the synonym of "to secure," if made by the same party and without mortgage. To argue that a United States Government bond is a better guaranty or security than

an appropriation in money in a United States law is to argue that a "promise to pay" is better than "cash in hand."

The compensation to the United States Treasury for guaranteeing the currency notes issued by the banks would run as follows:

On \$200,000,000 of United States notes carried by banks, at 2½ per cent.....	\$5, 000, 000
Maintaining parity on \$500,000,000 of silver dollars, for which all the other bills propose to deposit 5 per cent gold in the Treasury, which would equal \$25,000,000 at 2½ per cent.....	625, 000
One-fifth of 1 per cent tax on \$600,000,000 of currency....	1, 200, 000
Gain on that part of the currency destroyed and never presented for redemption, as proved by the thirty years' experience of the Treasury, two-fifths of 1 per cent on \$600,000,000 is.....	2, 400, 000
	<hr/>
	9, 225, 000
Saving in cost in handling the United States Treasury....	1, 000, 000
	<hr/>
	10, 225, 000
The necessity under present conditions of carrying an immense amount of money collected by taxation in the United States Treasury, \$175,000,000 at 2½ per cent....	4, 375, 000
	<hr/>
Saving per annum to the United States Treasury ..	14, 600, 000

This at 2½ per cent. It should be reckoned at 5 per cent or more, \$30,000,000 per annum at least. Not a farthing of this \$30,000,000 of saving would become an expense on the banks.

The provision in the Walker bill requiring every commercial bank to assume its equitable and proportionate part of the United States notes, according to its actual capital, and in a way to make them an advantage to the banks, is only one incident of the provisions of the Walker bill. It is necessary during the period of transition from that of their present isolated condition into the cooperative system provided for, and is in no sense essential to or necessarily a part of the Walker cooperative scheme. This is made unequal and a hardship in the Hill-Fowler bill. They are so small in the amount each bank is required to take and so equitably distributed by the Walker bill as to be an advantage and not a burden to any one bank, as the banks are allowed to issue an equal amount of currency. They remain as now, being issued under the same law and a United States legal-tender note, while the Hill-Fowler bill destroys them. The Walker bill provides for their continued existence and provides for their equitable annual redistribution among all commercial banks in the country as long as the national banking system shall last.

#### ADVANTAGE OF A NATIONAL CLEARING HOUSE.

Did the New York clearing house or the national clearing house provided for in the Walker bill have a legal existence, it would not be at all necessary to require individual banks to specifically assume any amount of particular United States notes in the cooperative scheme provided in the bill. The thorough union of the banks and incorporat-

ing the clearing houses is the real substance of the Walker bill. There is not now an incorporated clearing house in the country to deal with in a banking law.

#### ONE GOOD THING IN THE HILL-FOWLER BILL.

The Hill-Fowler bill apparently, but not actually, disposes of the United States notes in something of the same method as the Walker bill, at the beginning, in devolving the United States notes on the banks, but it surely and absolutely fails. It changes the essence of the present legal-tender United States notes as much as it does their name and equitable distribution. They become non-legal-tender "national reserve notes."

The Hill-Fowler method may, at first glance, look like the Walker method, but they certainly are as different in essence as the poisonous toadstool from the nutritious mushroom. Its method of distribution violates the principle of equity as between new banks and old banks, in devolving them upon the old banks in the beginning, now in operation, and leaves them on these banks, a disproportionate burden for all time to come.

#### CURRENCY NOT LESS THAN \$10.

The Hill-Fowler bill deprives banks, mostly country banks, of \$274,000,000 of circulation in \$5 notes by needlessly forbidding any bank to issue any currency under the denomination of \$10.

Under the Walker bill the limit is \$3 or under, practically allowing no bill under \$5, thus allowing a circulation by banks in this one item \$274,000,000 more than the Hill-Fowler bill, and reduces rates of interest to borrowers as \$274,000,000 is to the total loans by banks.

The Hill-Fowler bill provides a currency on more than half of which the rate of interest on loans in using it will have to be varied every day in the year to pay the same dividend on the stock of the bank, and the issuing and withdrawal of which will be governed by the price of United States bonds in the market and the time they run, as now, and not by the demands of business.

The Walker bill provides a currency to pay the same dividends. The interest on loans in the use of it will be the same every day in the year.

The Hill-Fowler bill only makes room for its bank currency in addition to its substitution of reserve notes for

United States notes by retiring gold certificates.....	\$37, 000, 000
National-bank notes.....	227, 000, 000
<b>Total .....</b>	<b>264, 000, 000</b>

The Walker bill pays out gold for United States notes...	146, 000, 000
Gold certificates retired .....	37, 000, 000
National-bank notes .....	227, 000, 000
Silver dollars in reserves .....	200, 000, 000
Five-dollar notes, forbidden in Hill-Fowler bill .....	274, 000, 000

**Total .....** 884, 000, 000

\$200,000,000 United States notes are to remain and can never be destroyed.

## CURRENCY CONDITIONS.

The Hill-Fowler bill changes present currency conditions by a very small degree, and would not effect a reduction of interest on loans sufficient to enable banks to be formed in country districts.

The Walker bill provides for such a change as to allow banks to issue "true bank currency," viz, against their assets, and reduce interest in those districts from one-third to one-half.

Under the Hill-Fowler bill a bank of \$100,000 capital will have to surrender from \$25,000 to \$40,000 of its capital in the purchase of bonds as a license fee to do business, when it commences business.

The Walker bill does not require the bank to become a bondholder by a single dollar in order to do business, and not to surrender any part of its capital, excepting in case of insolvency.

Under the Hill-Fowler bill the Comptroller can not know what the condition of a bank was, as shown by its books, on any given day, excepting the days on which the "bank examiner" went through it.

The Walker bill provides for a daily report of its condition to the Comptroller, and the examiner will have before him the condition of the bank on every day to verify when he goes to the bank.

The Hill-Fowler bill isolates and makes peculiar each bank, and makes it liable itself alone to be called upon for gold for every note it issues and by every banker who gets one. This isolation makes it unsafe for any bank to pioneer in the system even if it would be safe when the system was in full operation, which it is not. This is true of all banks that go into it until all are in, and then the country bank will be in a perilous condition.

Under the Walker bill every bank is absolutely safe during the transition, as the condition of no bank entering the system is affected in its obligations or duties until a given time, when the system becomes instantly in full operation.

No bank that enters into the system is affected by the provisions of the bill until all commercial banks in the country come under its provisions.

Immediately upon that event, existing United States notes assumed by any bank lose their identity so far as they belong to any particular bank that has its name printed on the back of them as responsible for their current or ultimate redemption, gold being massed in the national clearing house to redeem all of them.

They are then to the bank as the gold they hold, only appearing with gold in their cash reserves.

## CHARACTER OF NOTES.

The Hill-Fowler bill not only compels the bank to buy "national reserve notes" of the Government (strictly a bank note) and pay United States notes for them, which provision may put them at a premium, but it requires the bank to put up a 5 per cent gold current redemption fund for them, so the bank only gets \$95 for every \$100 it pays out.

The Walker bill keeps the identity of the present greenbacks and only prints the notes of the bank on the back of the identical greenback. It allows the banks to give nearly every kind of money for them excepting bank bills. All money can not be "cornered," as United States notes. The Walker bill requires the Government itself to put up the 5 per cent current redemption for its own notes. Thus the bank gets \$100 legal-tender money in exchange for each \$100 it pays in.

The Hill-Fowler bill continues the present law forbidding banks under any circumstances to use their "reserves" for the very purposes for which they are kept.

The Walker bill permits banks to use their "reserves" in any legitimate way.

Under the Hill-Fowler bill, as under the present law, every operation of the Treasury would expand or contract the currency to the serious injury of the business of the country. Witness the outcry all over the country that the Treasury is contracting the currency and injuring business in collecting the pay on any debt due the Government.

Under the Walker bill whatever sum the Treasury had or failed to have available, would not affect the volume of the currency of the country by the smallest fraction. It would be in the national clearing house where the people could use it.

Under the Hill-Fowler bill, as under the present law, national-bank currency notes, which are certificates of deposit and the people's money, are a freak money. They are forced out of circulation when the credit of the Government is best, business most active, and the people need the most money; they are forced into circulation by the banks when the people do not need them and can not use them, and the Government is distressed, as in 1893 and 1894.

Under the Walker bill it would be for the interest of the banks to issue the most money when the people needed it, and to just as large an amount as the people could use. The competition between banks in forcing it out will make it just as cheap as money can possibly be issued under any system and kept "good" and honestly used by the people, and when they most need it. That part and only that part of the currency which the people can not profitably use will be forced back to the banks.

Under the Hill-Fowler bill, as under the present law, the United States will have the highest interest rates in the most expensive currency system of any first-class nation.

#### LOW INTEREST UNDER THE WALKER BILL.

Under the Walker bill interest on loans will be as low, and this all over the country, as anywhere in the world. Currency will be issued to the people by the Government, not at 2 per cent interest, as the Populists want, but for nothing, to any five persons that get together capital enough to guarantee the safety of the currency they take and to the amount of their combined capital, as is done in every country, the United States alone excepted.

#### BOARD OF ADVISERS.

Under the Hill-Fowler bill, as under the present law, there is no way for the Secretary of the Treasury to avail himself of the expert assistance that is absolutely necessary to him to properly discharge his duties, and that every banker in the country has in his board of directors his clearing-house committee and banking associates, etc. To-day, if the Secretary seeks any advice he thereby inaugurates a panic—the very panic he may be seeking to avert.

Under the Walker bill the reverse is true. It provides for the assistance of the Comptroller, nominally, but really for the Secretary of the Treasury, a board of seven men—men who have risen to the very highest eminence in their profession. They have not attained to their places

by favor, but have conquered them by hard, diligent, continuous work for years. Their position at the head of the greatest financial institution of the world, developed in the Walker bill, not by appointment, but by conquest, will place them in a position not only equal to that of the directors of the Bank of England, but far above them.

Their attainments will rank in finance and banking with the justices of the Supreme Court of the United States in law. Their salaries will come to them naturally, as their duties are met, and from the banks, not from the United States Treasury.

The prizes for party workers provided in the Hill-Fowler bill, at an expense of \$23,000 to the Treasury in the triple-headed Comptroller, make more conspicuous by contrast the excellence of the provision in the Walker bill for this board of advisers. In the Walker bill the interests of the plain people of the country find protection in the hands of their special representatives, viz, the President, Secretary of the Treasury, and Comptroller of the Currency, who are given ultimate control. On the other hand, the highest efficiency and economy of service are secured to the banks by their officers and by the board of advisers.

#### PROTECTION OF GOLD RESERVES.

The Hill-Fowler bill affords no chance to the United States Treasury or to banks to protect its gold by banking methods, while united banks can protect themselves surely and safely.

The Walker bill affords banks the same chance to protect themselves against unreasonable depletion of their gold as the banks of France, of Germany, of England, and other countries do. Under it no call for gold under any circumstances can be made on the United States Treasury. It would be of as much indifference to the country what the Government paid out as what John Jones, Sam Smith, or anyone else paid out.

The Hill-Fowler bill provides no way of ending the liability of the United States Treasury to furnish to anyone demanding it all the gold needed by banks, or by domestic or foreign brokers, for speculation or to ship abroad.

The Walker bill ends it the day it goes into operation.

#### NO RELIEF TO THE TREASURY BY THE HILL-FOWLER BILL.

The Hill-Fowler bill holds out no inducement in any form for the banks to assist in relieving the United States Treasury of the current redemption of one dollar of United States notes in addition to the amount their bill forces them to take, viz, \$157,872,024—less than half of them.

The Walker bill, in addition to what it requires banks to take, has so large an inducement to banks to assume them and wholly and immediately relieve the Treasury of all of them, in allowing banks to issue an amount of currency equal to the amount of United States notes they assume the current redemption of, that the banks are restricted by the bill in the amount they can take.

#### PROTECTING REDEMPTION GOLD.

The Hill-Fowler bill, in full operation, makes the isolated and helpless country banks furnish to the isolated but powerful city banks not only all the gold they need but all the gold needed in the whole system.



The country banks, in turn, would demand the gold they needed of the United States Treasury, making conditions worse than now—in the city banks putting the country banks between them and disaster, while now the city bankers or brokers, or foreign brokers wanting gold to ship, go straight to the Treasury and not to city banks or country banks.

The Walker bill combines all the commercial banks in the country into one whole to furnish gold and maintain "parity," and masses all the gold in the country in two or three centers of trade to protect each and every bank with these masses of gold coin.

The Hill-Fowler bill compels the division of gold in 3,000 to 10,000 small parcels and the isolation of a little gold in each bank. Each bank is required to keep its gold in its own vault for itself alone and redeem its own notes in gold only. The country bank can not, in the nature of the case, keep enough gold to protect itself against a senseless scare among its customers or from being blackmailed by any powerful bank, broker, or any operator, either for revenge or for pelf.

The Walker bill compels all the banks to combine to maintain parity and to protect the gold of each solvent bank.

#### CLEARING-HOUSE CONDITIONS.

The Hill-Fowler bill requires as for twelve years, from 1879 to 1891, the United States Treasury to take all the risk and be at all the expense of the clearing-house system and the current gold redemption of legal-tender and Treasury notes. Then, and it will be the same again, confidence could not be maintained in such empirical practices without a surplus in the Treasury as large as was then held—hundreds of millions, a large part of it in gold. In every other country in the world the banks are required to assist and sustain the Government. The Hill-Fowler bill would, as now, compel the Government to support the banks.

Under the Walker bill the United States Treasury would only touch the national clearing house as a fiscal agent and depository of public moneys, having as a guaranty of the safety of such deposits the whole \$2,000,000,000 of cash reserves and banking capital of the country as a guaranty fund for its payment by the national clearing house. The Treasury could in no event incur any loss or be put to any expense, as it would be the only depositor of money in that association. Except in the Walker bill, or its equivalent, there is no possible way of avoiding the continuance of enormous loss to the people.

It provides a more effective and far safer connection of the Treasury of the United States with the principal banking clearing house in the country, and relieves the United States Treasury from taking all the risks and being subject to all the losses that are involved in the clearing-house business of the country, which risk it carried from the resumption of specie payments in 1879 to about the middle of 1891, at an expense to the people, incurred in taxation, of about \$12,000,000 a year.

The Hill-Fowler bill contemplates the continued use of the New York clearing-house certificates, which are sure to prove at some time a most dangerous and unsatisfactory emergency currency, as compared with legal-tender currency, to all excepting the banks which compose it. Banks in other parts of the country have already been brought into very great peril by their use.

Under the Walker bill United States legal-tender notes are the emergency currency issued to allay panics. Their advantage over "bank currency," as emergency money, is incalculable.

## OFFICE OF THE COMPTROLLER OF THE CURRENCY.

The Hill-Fowler bill abolishes the office of Comptroller of the Currency and creates a "triple-headed" executive department, thus violating every principle of prompt, efficient, and responsible executive action in the head of affairs, and still further by limiting their terms of office. It perpetuates this gross injury to the service at an increased expense of \$20,000.

Under the Walker bill the office of the Comptroller of the Currency remains as now, excepting the Comptroller is made many times more efficient.

The Hill-Fowler bill assumes that a whole community can be arrested, tried, and punished, in providing that every bank in the country shall be put in liquidation immediately, if gold payments are suspended by banks, for any cause, or for any time, longer or shorter. If an earthquake occurs in Charleston, S. C., the whole city shall be razed to the ground, because earthquakes thereafter may be normal to it. Such extravagant remedies overreach themselves, and are equivalent to no opposition to the thing deprecated, and no penalty at all.

Under the Walker bill a penalty tax of one-half of 1 per cent on deposits in all commercial banks, amounting to \$13,401,836 per annum, is imposed during the default.

## CURRENT REDEMPTION.

The Hill-Fowler bill provides the most cumbersome, expensive, annoying, and impracticable machinery for the current redemption of the three kinds of bank currency it creates that could be devised, and it makes it so inflexible by legal provisions with one class of notes redeemed in one manner and two kinds in another place and manner, as to create endless confusion.

It provides for the division of the United States into territorial "current redemption districts." This division of the country into redemption sections is made to apply to only one of the three kinds of bank-currency notes provided for in the bill—"national-currency notes." It also provides that these notes shall be redeemed in one way and at one place, and the "national-bank notes" and the "national-reserve notes" shall be redeemed in another way and at another place—and much more of the same sort.

It makes all three kinds of its bank notes a legal tender between banks, but provides that no bank shall pay over its counter on a check, etc., to a citizen or to other banks a "national-currency note" if the note is not in the same district that the bank issuing it is located in, unless its redemption in that district is provided for.

Territorial divisions rigidly fixed and the notes to be issued in that division to be made for that division only, is as impracticable as to restrict the mail service of the country in the same way.

Under the Walker bill the banks are simply required to "do the thing," and left absolutely free to do it in the cheapest, quickest, and safest way possible—in any way satisfactory to them and agreeable to the Comptroller. It is for them to decide and to change the way and place as often as a new railway, turnpike, or city road is built, or one town outstrips its rival. Banks must vary from time to time their ways of doing, in the nature of the case, always subject to the approval of the Comptroller.

Under the Walker bill the one kind of bank note provided for, paid out by any bank anywhere will naturally, immediately, and instantly, after it has done its work, find its way back to the bank that issues it as a letter dropped in the post-office in any hamlet finds its way to its destination. Each bank bill will find its way back to the bank that issues it in precisely the same way and in the same package with the check, draft, bill of exchange, or other money obligation issued by the same bank after it or they have done their work and at a tithe of the expense in time and money of the Hill-Fowler plan. It never will occur to anyone to ask what they are redeemed in. They will be redeemed in "bank funds" that all banks agree on and that maintain parity, or all banks will incur the penalty tax.

#### UNREASONABLE USE OF GOLD IN HILL-FOWLER BILL.

The framers of the Hill-Fowler bill see only gold in our monetary system. They see little in it to preserve to the people who made it. They do not hesitate to assume the duties and exercise the right of the Committee on Coinage, Weights, and Measures. They demonetize silver. They destroy the United States legal-tender notes. They reverse the policy of the country, not only as to gold and silver, but as to paper money, adding two more kinds to the present bank-note money.

They remove the guarantee of the Government from a large part of the bank money used by the people. There is not the slightest excuse for such radical measures.

In the Walker bill there can not be found a section, a paragraph, a clause, a line, or a word that makes the slightest discrimination between any two of the various forms of our coin and paper money, gold, silver, United States notes, Treasury notes, bank notes, etc.

Its author sought only one end, viz, to compose the ills and to correct the injustice in existing conditions, created by law, and in doing so not to unnecessarily antagonize the views of a single citizen in the whole country.

#### VISIBLE GOLD.

There was in the country "visible gold" (that is to say, besides all the gold in private hoards and in the pockets of the people) in banks, in the United States Treasury, etc., in 1896, \$421,236,388. It has increased since to nearly \$600,000,000. Not a dollar of these millions of gold was available to our banking and currency system excepting that in the United States Treasury, and no one is responsible for "maintaining parity" but the Treasury. We have more gold in proportion to our requirements than any other country, only a fraction of it in touch to keep the parity of our \$1,000,000,000 currency.

The Hill-Fowler bill continues the same inexcusable policy and aggravates it. It requires an immense amount of gold, but still leaves the United States Treasury ultimately responsible for maintaining "parity" and to furnish to banks all the gold they demand of it.

The bill requires the banks to carry one-half the cash

reserve required in gold .....	\$144, 000, 000
The United States Treasury to carry .....	136, 000, 000

Unvarying total amount required .....	280, 000, 000
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Treating silver and United States notes simply as currency, it requires the banks to redeem their notes in gold on demand.

The allowing the use of "national reserve notes" in redemption is only nominal. Each bank stands alone to redeem in gold its notes. Assuming that country banks will take out 60 per cent of currency to capital, it works out in this way:

The reserve city banks keeping 50 per cent of this required cash reserve in gold and on notes will keep in gold . . . .	\$119, 282, 035
Country banks, 50 per cent of cash in gold . . . . .	27, 466, 179
Country banks, on \$267,913,749 bank notes, 5 per cent in gold . . . . .	13, 395, 687
Total of . . . . .	160, 143, 901

As currency and deposits are identical, this is equivalent to requiring 51.2 per cent of cash reserve in city banks to be in gold and an equivalent of 74.3 per cent of the cash in the country banks to be in gold. The \$13,395,687 fund to be kept in the United States Treasury.

#### HILL-FOWLER BILL FAVORS CITY BANKS.

The city banks will escape all responsibility for maintaining "parity," for they will take out no currency. They will keep the "national reserve notes" they are required to take in their "cash reserve," changing them with each other for that purpose, the national reserve notes required in the central reserve cities being only 12 per cent to their cash reserve, in all other reserve cities only 53 per cent to their cash reserve. Not a dollar of their notes will ever be presented to the "gold current redemption fund" to draw out one dollar of gold.

On the other hand, the national reserve notes country banks are required to take, being 182.6 per cent to their cash reserve, and the amount of bonds they are required to take for "national bank notes," will make 335.2 per cent to their cash reserve, they can use only 14.3 per cent of these notes in their cash reserve. They will therefore be compelled to "pay out" all the balance, the whole equaling about \$158,000,000, besides the \$100,000,000 bank notes.

Under the old Suffolk system the total currency used averaged to be redeemed five times a year.

#### CURRENCY FLOWS TO COMMERCIAL CENTERS.

All currency flows to the commercial centers, to be returned to the country banks through "current redemption." The bill compels every dollar of this \$158,000,000 each time it is presented for redemption to be paid in gold. It puts the gold redemption fund outside of banks and into the United States subtreasury. This is done to make sure that the mandate of the law compelling actual gold redemption is obeyed. The actual gold or gold drafts must be used in redeeming it.

Five times a year on \$158,000,000 makes about \$70,000,000 of gold a month used in redemption and constantly flowing from country banks into city banks; \$800,000,000 each year if only \$158,000,000 of national-bank currency and national-reserve currency is used.

How do you like this bill, wholly in the interest of the city banks? Will a bank ever be organized under it?

Where are the country banks to get their gold? Out of the United States Treasury? How is the Treasury to get this gold? Of course the city banks will kindly hand it over to the Government in pleasant times, when everything is balmy. How when it storms? How about

1893? How about another Cleveland-Carlisle administration? It is as sure to come as history is to repeat itself. Sell bonds, of course! Sell \$163,000,000 bonds at a loss of \$40,000,000, as Cleveland did, or \$1,000,000,000, and just as many as unscrupulous banks or foreign brokers may determine.

The Hill-Fowler bill leaves the United States Treasury absolutely unprotected, the sport of the most unscrupulous money changers and gold brokers that can be found anywhere in the world.

A cablegram costs but little. The door of the United States Treasury opens, for the delivery of gold, into every European broker's office—Israelite or Christian.

#### PROBLEM OF SILVER REDEMPTION.

But one of the most remarkable hallucinations developed in the bill is the belief that with \$500,000,000 silver in circulation, averaging to pass through banks in deposits from traders five times a year, or \$200,000,000 a month, the people will pay the traders in certificates or in coin. If the banks can not get them to present to the United States Treasury for gold, all existing banking customs must be reversed. Remember, the bill demonetizes silver dollars and provides for their gold redemption at the Treasury. It provides only \$25,000,000 gold, and that the Treasury must keep good, to redeem in gold all silver presented to it. The only way the country bank can get the gold to make the compulsory gold redemption of the circulating notes is to get it out of the United States Treasury or beg it of the city banks. Problem: With \$25,000,000 gold stock in the Treasury to redeem \$200,000,000 a month of silver, how many bonds must the Treasury sell per month to do it? Or, how much gold must it buy directly or indirectly of the banks? Or, how will it run the New York clearing house as an adjunct to the United States Treasury? How long will Andrew Jackson lie quietly in his grave, or who cares whether he lies quietly or uneasily?

#### ASSUMING UNITED STATES NOTES.

Under the Walker bill not one of the present unjust or objectionable banking or Treasury conditions will remain. - The city bank will have to assume the current redemption of United States legal-tender notes equal to  $12\frac{1}{2}$  per cent of its actual capital, and the strictly country bank, just formed,  $12\frac{1}{2}$  per cent of them to actual capital.

The central reserve city bank will not be let off with buying 2.4 per cent to its actual capital of bonds and 12.8 per cent of national reserve notes, and the new country bank have to buy 25 per cent of both, as in the Hill-Fowler bill, and the other central reserve cities only 5.5 per cent of bonds and also of 16.5 per cent of national reserve notes to new banks 25 per cent of both bonds and notes. It requires no bonds whatever, and serves every bank alike.

The Hill-Fowler bill provides for the disposition of only \$157,872,000 United States notes by banks. It only requires the taking of them by national banks. It holds out not the slightest inducement for banks to assume one dollar of them more than the law compels them to take.

The Walker bill requires all commercial banks, national and State, to assume an amount equal to  $12\frac{1}{2}$  per cent of their actual capital, which would dispose of \$168,071,000. From paying out the Treasury gold \$146,000,000 would be disposed of. The losses are estimated at \$12,000,000, leaving a balance of only \$20,000,000 for banks to assume.

The Walker bill allows banks to issue currency against their assets at once for every dollar of United States notes they assume. This inducement is so great, that among the six thousand State and national banks and new banks there would be found enough to immediately take up many times this amount.

The Walker bill immediately adjusts the holding of United States notes among all banks, so that any bank having an excess will be relieved of the excess immediately—as soon as any bank is in the system.

The Hill-Fowler bill provides no protection to the specie of any single bank. Any excitement in its neighborhood is liable to wreck the most solvent isolated single bank.

Under the Walker bill, the gold of all the banks is massed to defend the gold of each individual bank, by the combination of all banks, so that no “run” could possibly be made on any one bank, and all the banks combined are too strong to meddle with.

#### HILL-FOWLER BILL UNFAIR TO COUNTRY BANKS.

The unfairness of the Hill-Fowler bill as between city banks and country banks is further illustrated by the percentage of bonds to their actual capital each is required to buy. The bill is carefully drawn in the interest of banks that are interested in speculation in bonds as much as it is in the interest of banks faithfully serving their business customers.

It requires of the central reserve city banks, as a license fee to do a banking business, the buying of United States bonds to the amount of 2.4 per cent of their actual capital. Newly formed banks must buy bonds to the amount of 25 per cent of their capital. Other reserve cities the amount of 5.5 per cent of their actual capital, against 25 per cent of capital of banks newly formed.

This bill would not have gotten out of the committee if it had not been so drawn as to meet the wishes of those who were determined that no bill should be reported that did not first of all protect this bond privilege to banks, and this to the sacrifice of the legitimate commercial bank, and of the advantages of a true bank currency.

Banks that bought bonds at 80 to 90 cents on the dollar of their value in prosperous times must have preserved to them the privilege of taking out currency on the bonds while waiting for the 10 to 20 per cent profit, that they may loan the currency they take on these bonds to country districts that are prohibited from having their own banking funds by the national law. And this to add to the profits of banks in speculating in bonds or still more to favor banks in localities which have an excess of banking funds for commercial uses and are investing them in bonds.

#### BRANCH BANKS.

The Hill-Fowler bill authorization of branch banks is very bad economics as compared with encouraging the local independent bank, and still worse statesmanship.

It finds no justification in the policy of our free banking system or in any amendment of it proposed in this bill.

It is unwise to permit powerful city banks to establish branches in places of 4,000 inhabitants or less. The putting its local agent in a place with no interest in it other than the money he can make out of it for his nonresident employer, means that no independent local bank,

managed by its citizens, can be established in the town, and if one is there it must go out of business.

In nine cases out of ten local banks in towns are formed by public spirited citizens to get a fair return on the capital they put in the bank, but still more to build up the town, by assisting other citizens to capital with which to do their business.

The agent of the city bank may for a time loan money, in "good times," at rates to drive out the country bank, and in times of stringency the funds with this country agent will be sure to be immediately returned to support the city bank. The customers of the country agency will be sacrificed to the necessities of the parent bank.

Generally there are two stores in a town. In times of excitement each is the headquarters of one political party. The agent of the parent bank knows the politics of his city employer, and again the bestowal of his favors is liable to be influenced by his own politics.

But our choice must be made between one great "United States Bank" with ten thousand branches, and on the other hand ten thousand independent local banks, united together, that all in union may support each, and thus all together make each secure in times of stringency or in threatened or actual panic, as in the Walker bill.

There is no possible relief of the Treasury condition or any other way of saving to the people a loss now made of \$50,000,000 to \$60,000,000 annually in excessive interest charges. It can not be done by the isolated banks of the Hill-Fowler bill.

#### INDEPENDENT LOCAL BANKS.

Under the Walker bill independent banks will be formed in every considerable town by its leading citizens and in the immediate future.

Each bank will necessarily have in its direction the two storekeepers. It will necessarily have Republicans, Democrats, and Populists in its management. There are not enough men in either party alone so situated as to maintain the bank.

The four chief agents in civilization are the home, the church, the school, and the bank. To-day every man, rich or restricted in his means—merchant, manufacturer, farmer, or what not—must at times have more or less assistance with money borrowed of banks, or suffer great loss in lower prices for his products or shrinkage of value of his property. Millions are thus lost every year by farmers and others in the United States because banks can not live in country districts under the law as it now is.

But still more the bank is the greatest instrument of substantial progress, in helping forward wise schemes and advising against the unwise.

It is in the directors' room of the country bank that talk never ceases as to how the progress of a town can be secured, property be made to increase in value, and a greater home market for the products of the farm secured; better and cheaper freight rates, better markets everywhere for the home, shop, and factory; better county roads; a gas plant; better country and town buildings; better schoolhouses, better church edifices, better everything. When five or more reputable citizens of a town get their capital together to form a bank, it means that the town must take on new life and every citizen of the town will be more enterprising and successful.

In the bank not only all theories of coinage, paper money, credit, and business methods are discussed by the directors and officers of the

bank, but by every business man and farmer in the neighborhood—by every man who goes into the bank—not only discussed, but tested in practice.

The Walker bill conserves and magnifies all these forces for good in encouraging the formation of local banks. As compared with the good done by an independent country bank, with its immeasurable progressive influences for good, what can the single excellent individual and honest money lender do, who is sent into the town by the city bank?

A bank established in a town serves the whole body of towns adjoining, and would reduce prices on goods to the farmers very considerably. It is said goods are uniformly sold at retail, where cash is paid, from 5 to 10 per cent less than where payments are made only once or twice a year. The country merchant is now the farmer's banker, at a cost to the farmer in increased prices on all the farmer buys of from 5 to 10 per cent over what the prices would be were there a bank in his neighborhood. He could borrow money of the bank on his own note, which he could pay at the dates at which his hogs, or horses, cattle, wheat, corn, oats, rye, flax, or cotton, etc., were ready for market.

#### CLEARING HOUSES.

The Hill-Fowler bill undertakes the impossible in laying obligations on clearing houses having no legal existence.

Under the Walker bill every clearing house in the country is made a body corporate to deal with under the law and brought into the system, and every commercial bank as well.

The Hill-Fowler bill needlessly antagonizes, in very many of its provisions, nearly every notion, opinion, economic and political, and the experience of our 70,000,000 of people.

#### WALKER BILL OFFENDS NO PREJUDICES.

The Walker bill takes cognizance of every notion, opinion, prejudice, etc., of gold men, silver men, greenbackers, Government sub-treasury men, and Government currency 2 per cent loan men. Not one of them can consistently vote against the Walker bill. Every one of them claims to desire that all paper money and coin money shall be kept at a parity, which the Walker bill provides for doing.

The Hill-Fowler bill, with its restrictive features, and annulling their charters at the end of a year, could have only one outcome to all national banks, viz, to drive every one of them out of the national system and into reorganizing under State laws, or drive them out of business.

The Walker bill, on the other hand, leaves banks far more freedom than now to safely conduct their business under it and brings every "commercial bank" into the national system and makes the position of every one of them absolutely secure in any event, excepting in making unsafe loans and from dishonesty among its officers.

#### SOUTH AND WEST WOULD DEVELOP BANKING UNDER WALKER BILL.

Bank funds are now so abundant in the New England, the Eastern, and Middle States that they can not find employment in strictly commercial business. A large proportion of them are now invested in United States and other bonds. One hundred million dollars and more, because of their abundance, are now loaned in Europe on call. Pass the Walker bill and allow the Southern, Western, and Pacific States to



fully develop their banking and currency interests under the only law yet proposed that makes it possible to them to do so, and interest rates on loans made, on the same security, to the same amount, and on the same time, would be very nearly as low all over the country as in cities, and lower than in any European country, not excepting Great Britain. Europe could not keep gold unless her interest rates were as high or higher than ours.

If, besides, a banking committee of the House could be appointed with sufficient wit to report and secure the passage of the international American bank bill, within a comparatively brief time the money center will be moved from London to New York or Chicago.

#### HILL-FOWLER BILL NOT DRAWN ON ECONOMIC PRINCIPLES.

Finally, the Hill-Fowler bill, like the existing national banking law, is not drawn on any recognized principles of economics and sound banking principles. Its requirements, prohibitions, and penalties are not justified by experience.

The Walker bill is drawn in accord with true economic law and sound banking principles, and every requirement, prohibition, and penalty is justified by the testing of every line of it by the experience of the good and bad State banks for years previous to 1862, by the experience of our national system for thirty years, and by the experience of France, Germany, Great Britain, etc.

If anyone will point out an excellence in the banking laws of any country not included in it, or a provision in it not consistent with experience and the very best results of financial and banking experience of the world, when it is shown the bill will then be corrected accordingly, or abandoned. I only remark that one bank, with all other branches, or all banks as integral parts of one whole, are only admissible.

If any performance fell so far short of the announcement of the play on the bill boards as the various bills referred to the Committee on Banking and Currency, or prepared by some members of it, have of the commendations of them sent broadcast over the country by the Monetary Commission, the audience would do as much credit to their sense of justice as they would discredit to their patience, by mobbing the performers.

#### RECAPITULATION.

The Hill-Fowler bill does none of the following things, the doing of which is made certain by the Walker bill:

1. The Walker bill makes sure the maintenance of parity between all forms of our existing money by the banks.

2. Retains the actual use of gold and silver money by retiring all silver certificates and all gold certificates.

3. Does not impound, retire, or change the existing United States legal-tender notes.

4. It provides for only one kind of paper money, viz, a national-bank bill as securely guaranteed by the Government as the present national-bank notes.

5. It relieves our hazardous situation in case of panic or reverses in war.

6. It reduces interest rates on loans by country banks from one-third to one-half.

7. It absolutely and forever relieves the United States Treasury of the current redemption of any form of paper money by putting it on banks.

8. It does not pile up vast sums of money in the Treasury to create discontent among the people.

9. It furnishes no needless opportunity or encouragement to the hoarding of gold.

10. It furnishes a currency the hoarding or destroying of which makes lower the rate of interest by banks and helps the United States Treasury.

11. It gives every dollar of currency as explicit and available a Government guarantee as now.

12. It unites all banks of the country in an organization to guarantee the parity of all United States notes, silver coin, gold coin, and national bank notes, as solid and secure as the Bank of France, and more so than the banks of any other nation excepting France.

13. It builds up this fabric by units as separate, distinct, and independent as is the citizen in a town who, acting together with his fellows, makes a body politic.

14. It thus takes careful cognizance of every phase of political and economic thought among the people.

The Hill-Fowler bill takes no cognizance of the political situation, and needlessly offends the great mass of the voters.

Bryan's vote, 6,500,000; McKinley, 7,000,000.

Bryan 2,000,000 crazy for silver.

2,000,000 frenzied by the present banking and currency situation and care nothing for free coinage of silver.

2,500,000 care nothing as to what principles the Democratic platform preaches or for silver. They are for the "machine."

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6,500,000

1,000,000 Republicans are earnestly for the unlimited coinage of silver, but are more for what the Republican party represents in other things than for silver.

6,000,000 voters are more or less suspicious or opposed to national banks, and almost wholly on account of the use of United States bonds by banks to get currency notes on.

15. The margin of  $3\frac{1}{2}$  per cent of sound-money voters is dangerously small. We must win from those among the people who want a better currency system enough votes to make sound money safe, and must also keep the 1,000,000 Silver Republican voters for maintaining parity.

16. How can we do it?

Not by telling the people that we have changed the paper money they will hereafter carry in their pockets into bills *not guaranteed by the Government as the Hill-Fowler bill does*. Not by giving the people anything any less secure than they now have. But that in changing the paper money and leaving out the bonds we have *kept the Government guarantee*.

17. Neither can we tell the people when we meet them face to face in their primary meetings that we have given them two kinds of paper money—one they can never lose a dollar on, however poor the bank issuing it may be, for the Government is behind it; and another that

they must look to the bank only to pay in case of insolvency. As a party measure, such a statement would be *worse than to do nothing*.

18. We had better stop here and now, and carefully examine our position as to all the bills before us, Fowler bill, Gage bill, McClary bill, Hill-Fowler bill, commission bill, Walker bill.

The first section of my bill involves this question of what currency we shall provide.

What inducements, what reason, can we give for the change from what now is?

What are the charges made against national banks?

National banks, \$100,000 capital. (1) Banks buy \$100,000 of bonds, on which they get 4 and 5 per cent interest. Then they (2) take them to the Government Treasury and get \$90,000 currency for the bonds, and loan the currency, getting (3) from 4 to 10 per cent interest on this currency.

Interest on the bonds averages  $4\frac{1}{2} + 4 = 8$  per cent. }  
 $4\frac{1}{2} + 6 = 10\frac{1}{2}$  per cent. } gotten by banks.  
 $4\frac{1}{2} + 8 = 12\frac{1}{2}$  per cent. }

The usual reply:

(1) Every dollar of currency is secured by the pledge of a United States bond in the Treasury of the United States.

(2) You can not have a safe currency unless its payment is made sure by the guarantee of the United States.

(3) No holder of a currency note has ever lost a dollar on a note of an insolvent bank since we had national-bank notes. Unlike the old State banks.

(4) We have the best banking system in the world, because our currency notes have absolute security in the guarantee of the United States.

Rejoinder:

(1) Secured currency. What good does that do us? It may be secured, but we have no currency in our part of the country, and can not get it.

(2) We can not borrow it at any price.

(3) We have plenty of property—hogs, horses, cattle, sheep, hay, oats, corn, wheat, but no money.

(4) We want, and will have, more money.

(5) What good is it to us that currency is absolutely safe to the holder if we can not get any to "hold?"

Reply:

(1) Money is plenty. There never was so much money.

(2) The Treasury reports show double the money now for each man, woman, and child that there was before the war or after the war closed.

(3) Anyone who has anything to sell can get money enough.

(4) Anyone can borrow money that has anything to borrow it on.

Rejoinder:

(1) I know money is *not* plenty. I do not care what the Treasury or any other "*reports show*."

(2) We are determined to have more money.

(3) We never had any more things to sell, nor more of them, than now.

(4) But we have to sell them immediately when they mature.

(5) We can not borrow any money to hold them until we can get fair prices.

(6) We sell them, and when the speculators have skinned us of all we have raised at *low prices* we hear that prices have gone up 5, 10, 15, or 20 per cent.

(7) We will try the unlimited coinage of silver if we can not get anything else.

Reply:

(1) Unlimited coinage of silver will do you no good. How are you going to get the silver after it is coined?

(2) The Government can only get it out by paying it out.

(3) You can not get it unless you work for it or sell something for it which you have worked to raise, etc.

(4) A 50-cent dollar can not help you.

(5) Even that will not be given you, etc.

Rejoinder:

Yes; I know that; but I can not be any worse off. The bankers and their friends and neighbors get all the money they want. I can borrow no money when I have as much property in hogs that will be marketed in three or four months. My wheat, corn, oats, barley, horses, beef, etc., are as good as any man's property. I can not be any worse off, and I will try unlimited coinage of silver anyway, and take the chances.

This is not argument or reason, but it is exactly the condition of mind 6,500,000 voters are in, or worse.

Reply:

WHAT CAN BE SAID ON THE STUMP—

We are called gold bugs, gold-standard men, etc., etc. We are not single gold-standard men, if you mean by that that we have changed. We are now where we have been since the Government was born—for having the best money in the world; and will keep each form of our money—paper, silver, and gold—at a parity with every other.

#### HOW THE WALKER BILL HELPS THE PEOPLE.

People ought to get paper money for the asking, if they will keep it as good money as the world ever saw, and not other ways.

(1) Any of you five men can get together \$25,000, which is as little capital as can be made to pay expenses in a bank and make it safe, and can go to the United States Government and get \$25,000 of notes, paying only the cost of printing. Then the five men can make the \$25,000 of notes they get their own notes by having the president and cashier sign them. Then these five men can circulate them as money. But you say that is the way they used to do before the war, and we do not like that kind of money.

(2) Yes; but the Government did not guarantee that money, and it does this money. The money I am talking of is guaranteed by the United States just as surely as it is now. It is exactly the same money as we now have. It has the Government guarantee, as we have always told you it must have, in order to be good money. The only difference is this:

Now, the Government issues its bond, sells it to the bank, and the bank puts it back in the hands of the Government that made the bond, takes notes for it, goes home, and makes those notes its own, exactly as under our law, by signing them by the president and cashier of the bank, and uses them as money as now. But now the Government takes the capital

of the banks so the people can not borrow it, but pays the bank 4 or 5 per cent interest on the bonds, and the bank also gets interest on the bank-note money it got on the bond. Under our law the Government pays the bank nothing. The Government makes the notes we have provided you precisely the same money as to securities as the present notes, in case the bank fails, by writing in the statutes that every one of the notes shall be immediately paid out of the United States Treasury if the bank fails; and the Government shall then take all the property of the bank to pay itself with the property of the bank, and, besides that, it makes all the banks pay a tax on all these notes all the time, and enough to make up any loss it could possibly make in paying these notes, and several times as much as any loss could be.

(3) What, then, have we done?

A. We have given you a paper money as much guaranteed and made secure by the Government in case the bank fails as now—the same as it has always been.

B. The people have always complained that the banks got interest paid to them twice, once by the Government on the bonds put up and then by the borrower. We have stopped the Government interest to banks on the bonds by taking out of the law the right of only the bondholder, as you have said. You have always said “a man must become a bondholder to get paper money.” Our law allows any five reputable citizens to get it without having to first buy bonds and then put up its \$25,000 capital in the bonds as a guaranty to keep their bank notes as good as our greenbacks.

C. We have done more. We have put upon the banks the duty of keeping all our money—greenbacks, silver dollars, gold dollars, and bank notes—each and all as good as the best money in the world by keeping all at a parity.

Every greenbacker says that must be done.

Every man favoring unlimited coinage of silver says that must be done.

Every bank man says that must be done.

Our law does exactly what all classes of people say they want done.

D. It cost the United States Treasury from \$12,000,000 to \$20,000,000 a year to keep our money at par, which is taken out of you by taxation, in the last twenty years. We have stopped all that, besides the hundreds of millions in indirect taxation. It has been cheap at its cost, rather than not have it done by anyone; but now the banks must do it in future, as banks do in all other countries, and at no cost to you, or cost to them, as to that matter.

E. We have also required in the bill that when a bank note gets into New York, Chicago, or any other city it shall be sent home, to be loaned there. They can not pile notes up in New York by the hundred million under our bill, as they do now.

F. As any five of you can get together and form a bank, with the money to put up in order to make the bank notes you get secure and not be obliged to use up your capital in first buying bonds, money can not be “cornered” or excessive interest charges be made on it by banks.

G. Under our law you can borrow such money nearly one-third (certainly one-fourth) less than the interest now is on our present bond money, for the reason that bond money uses up the capital you put up in buying the bonds.

H. Under our bill the people have the \$25,000 capital to borrow, and

\$25,000 bills also, as they do in Canada, Scotland, France, Germany, and every other country, and can therefore loan money as cheap here as in Europe.

Remember, in all this talk and in no talk ever made was the mind of a single one of the average voters, making three fourths of our voters, ever cleared up on the proposition that the banker did not get 4 to 5 per cent on his bonds, and 4, 6, 8, or 10 per cent interest in addition on the currency paid out by the banks.

That belief remains; and that belief and the further fact that there is now no bank in many considerable centers of business throughout many sections of the country to make the people loans at reasonable rates of interest, and, still more, educating a body of citizens connected with banks to post up the citizens on the real facts, and thus steady public opinion with their knowledge and experience, has done more to prepare the minds of the people to receive the seed of the error of unlimited coinage of silver by our country, without the help of other countries, than its adherents have done to propagate that error.

The only conceivable cure of it is in setting a back fire in increased free but sound bank currency.

The people have a moral right to this free and "true bank currency," such as the people in every other country have, such as is provided in the Walker bill, H. R. 10333.

Not one of these statements can be truthfully made of the Hill-Fowler bill.

#### BANK OF ENGLAND.

In addition to what has been already said in objection to grafting on to our bad banking system the one bad feature of the otherwise most excellent Bank of England system, I wish to say that the belief of some sincere friends of reform—that we can correct admitted evils by a system of Treasury bookkeeping, as in the Bank of England, while \$1,000,000,000 to \$1,200,000,000 still remain as demands for gold on the United States Treasury—is the most fatuous of all.

The Bank of England system of issuing currency could by no stretch of the imagination be thought by sound financiers to have any chance of adoption in England to-day were it an original proposition.

If the Bank of England system was not urged on us *ex cathedra*, no one would think of adopting it.

Nearly the whole body of European financiers, and English as well, believe the restriction of its note issue to be the one defect in the Bank of England system, with reference to the pretended greater security given to the business and commerce of Great Britain in preventing or allaying panics by its method of issuing currency, over and above the method pursued by the Bank of France, the Bank of Germany, or in New England under the Suffolk system, from 1840 to 1864, which latter I believe to have excelled all others, excepting the Scotch. No one believes in it, and yet it is proposed to foist the semblance of this system, but in a far more objectionable form on our present chaotic system, or rather want of system. The claim that the internal arrangements of the Bank of England required by law, as to keeping its accounts and its gold (for that is the sum and substance of the whole controversy), gives any greater security to the creditors of the bank and to the business interests of Great Britain, or makes its currency any more secure than are the currency notes of the institutions named, is wholly

unfounded. The highest, and, in fact, the only substantial approval in finance is imitation, and the Bank of England system has been unanimously condemned in not being adopted by a single bank in the world during the fifty-three years of its existence. The Bank of England is, first of all, the commercial, and still more the gold, clearing house of the world, rather than a bank proper. That it is managed with consummate ability, by "giants in the land," is not disputed, but its success is believed by nearly the whole body of the practical financiers in Europe to be not because of, but in spite of, its system of issuing currency. Its position is unique.

It is proposed in the Hill-Fowler bill to go further even than the Bank of England in making our legal-tender notes purely gold certificates.

The Bank of England notes are not gold certificates in form or substance, as distinguished from the notes of the Bank of Germany or the Bank of France.

The issue department of the Bank of England held gold to the amount of only 66 per cent of the currency it had outstanding on December 9, 1896, as shown by the Bankers' Magazine, London, England. It is therein reported that in 1847 the bank held gold to 48.84 per cent of its notes in circulation, 48.75 per cent in 1856. In 1857 it held gold to 41.23 per cent. In 1860 it held 65.21 per cent, on October 3, 1889, 73.37 per cent, etc., etc. To its total gold liabilities a comparatively small per cent, while not only English merchants, but the commerce of the world, looks to the \$150,000,000, more or less, gold in the Bank of England for gold exchange.

The Bank of England law gives no preference to its obligation in the form of a Bank of England note over any other form of its total obligations of \$450,000,000 in the requirement that it shall pay gold on every demand.

The provision of law requiring the bank to maintain two departments, one of issue and another of discount, is purely a matter of book-keeping, in that the same men are one and the same corporate person, managing its issue department and also its discount department, and invariably with the two departments as one corporate person does every customer deal. That is to say, the law recognizes only one corporate person in the Bank of England. This is incontestably true. The law simply defines how this person shall act. How, then, can it be said that each department has an autonomy of its own, or increases its ability to maintain gold payments, or that its security is increased or diminished by legal restrictions on its freedom of action in an emergency? In fact, in every crucial emergency this restriction has been suspended.

It is impossible by a law, in provisions applying wholly to the manner in which a corporate person shall manage its internal affairs, and making parties of the second part in no way responsible for its doings, to change or modify or give preference in securing gold to one obligation over any other obligation assumed by such corporation, when it is prescribed in the law that every obligation (of the Bank of England) is identical in this, viz, that they are each and all payable in gold on demand.

The testimony before the Committee on Banking and Currency was that the Government is responsible for maintaining parity in all forms of our money, keeping each at a parity with the other, directly or indi-

rectly, each dollar of it on a par with the other in demanding gold. The least reflection will convince anyone that, in the nature of the case, this must be true.

Finally, the Bank of England was prohibited from giving any preference to one of its creditors who held one of its obligations in the form of a Bank of England note over a creditor who had one of its checks, drafts, bills of exchange, or only a deposit in the bank subject to check. That we may understand the situation, I give its exhibit for December 9, 1896, in dollars, and in the form used by national banks:

## ASSETS.

Government debt .....	\$53,604,984
Government securities .....	66,928,823
Other securities .....	157,353,785
Loans and discounts .....	117,805,579
Gold coin and bullion .....	161,945,829
Silver and gold coin .....	11,729,881
<b>Total .....</b>	<b>569,368,881</b>

## LIABILITIES.

Proprietors' capital .....	70,822,174
Surplus and undivided profit .....	15,350,863
Public deposits .....	32,113,216
Other deposits .....	206,686,615
Seven days' and other bills .....	692,984
Currency notes .....	243,703,029
<b>Total .....</b>	<b>569,368,881</b>
<b>Liabilities to the Government .....</b>	<b>118,286,253</b>
<b>Liabilities to individuals .....</b>	<b>451,082,628</b>

As not a dollar of this \$570,000,000 has the slightest preference over any other dollar, from the Bank of England notes to deposits of individuals, in being payable in gold or having the right to demand gold, how can anyone conceive that a rigid bank regulation or inexorable statute law in restriction of the freedom of the bank as to the mechanism of keeping its gold or issuing its currency or paying out its currency as unforeseen emergencies arise can be any other than a promoter and intensifier of panics rather than a source of stability and confidence in the ever-expanding and contracting demand for currency and the complex and ever-varying and unknowable banking gold conditions?

Shall this country, in the Hill-Fowler bill or at the request of any man or body of men, because of their eminent respectability and ardent patriotism, make our treasury condition ten-fold worse than it now is by adopting the currency system of the Bank of England, when, as I have said, it has received the most severe and unanimous condemnation in the practice of all the other banks of the whole world for the fifty-three years of its existence? The greatest, in fact the only, competent or tangible evidence of approval of any financial device is its adoption by those who approve it. Every bank in every country has in practice condemned the Bank of England machinery for keeping and paying out its gold and issuing its currency by refusing to adopt its system.



Furthermore, the whole body of the world's practical financiers, with few exceptions, condemn it in words, as they all do in practice. It is not abandoned by the Bank of England from the fact that the warp and woof, the success of moderate banking, is based on "confidence," and when confidence exists, rightly or wrongly, bankers are not warranted in disturbing the public mind by a change, however desirable in itself the change may be. The only justification for action here, bad as is our system, is that the people having come to a knowledge of the perils of our financial position, confidence is destroyed and immediate reform is demanded on every hand. I could fill a hundred pages with adverse criticism of the Bank of England system from the leading financial writers of the world, but as I am appealing to the great jury that must finally decide this question, viz, the plain people, I use my limited space in quoting the final verdict of those most competent to form right opinions, from authorities the people can consult, which are crystallized in encyclopedias.

The Encyclopedia Britannica is content to give definitions and state facts as to subjects in other cases, but in that of the Bank of England it confesses judgment through page after page of special pleadings that command the respect of but few financiers, and disputes its own facts.

It confesses that:

"It must be admitted that the variations in the rate of discount charged by the bank have been much more numerous and violent since 1844 than they were before, and on these occasions it has been judged necessary to authorize the suspension of the act so far as to allow the bank directors the power to strengthen the banking department by recourse to the reserves in the issue department. In each case the suspension of the act arrested and allayed the panic prevailing up to the moment of suspension, and in 1866 it was not, in fact, found necessary to exercise the power to borrow from the issue department, which had been conceded to the directors."

What is meant by the "suspension of the act" is the deliberate violation of the plain letter and spirit of the law of the land "by the action of the executive government (of the bank) acting on the faith of a subsequent indemnity by Parliament."

And this is the system of banking laws recommended to this country, badly as it serves the greatest bank in the world. On our Public Treasury, without a shred of banking business or banking powers to mitigate and hide its defects, this travesty of the true banking and true and safe currency principle and safe bank and currency practice is to be saddled with this excrescence.

Again it says:

"Again, it may be freely admitted that it is not improbable that changes (crises) have from time to time happened that might not have occurred supposing the separation of the banking and issue departments had not been established. \* \* \* The repeated suspensions of the act of 1844 in time of trial do, *prima facie*, present a much stronger argument for the repeal of the statute. Legislation which breaks down upon critical (crucial) occasions discredits the legislature that decreed it. Sir Robert Peel, in common with the earlier advocates of the policy of the act (separate departments), believed that it would prevent the recurrence of commercial crises, etc."

The statement by it of the fundamental principles governing the issue of currency laid down by the article and accepted by all writers

on finance confounds it in every word of its defense of the abnormal provisions of the Bank of England act of 1844 as to its issuing currency, viz:

"No inference can be safely drawn from the number (amount) of notes or coins, or both, afloat in the country as to whether its currency be or be not in excess. That is to be learned by the state of the exchange, as by the influx and efflux of bullion. If the imports of bullion exceed the exports, it seems that the currency is in some degree deficient, while if the exports exceed the imports it shows that the currency is in excess, and that no additions can be made to it without further depressing the exchange and increasing the drain of bullion. When the imports and exports of bullion are about equal, then, of course, the currency is at about its par level. These are the only criteria by which anything can ever be correctly inferred in regard to the deficiency or excess of currency. Its absolute amount affords hardly even a basis for conjecture. Excepting in periods of internal commotion, or when we are disturbed by alarms of invasion, the state of the exchange is the only, as it is the infallible, test 'of the sufficiency or insufficiency of the currency.'"

If there is any one thing more than another that will establish in the mind of the banker a fear that begets a crisis and panic or that will intensify them, it is that he can not change the form of his obligations and that his fellow-bankers will not come to his assistance in case of unusual demands being made upon him in "rediscounting [his] bills that had been already discounted by him." See how the Bank of England is made to appear, whatever the facts may be, to play the Ishmaelite and intensify, if it is not a potent agent, in inaugurating crises, in a further significant quotation, viz:

"Strict limitation in the number and class of customers with whom the bank would do business and a refusal to rediscount bills that had already been discounted by money lenders, make it possible to keep the bank rate below the rates of the open market without exposing the resources of the bank to an exhaustive demand." [And a government treasury has none of these devices or resources to assist it.]

Financiers further declare that the Sir Robert Peel scheme for making hard and fast lines for banks in their issue of currency was adopted because of his utter failure to appreciate the fact that the only legitimate and certain repressive device was to compel banks to certainly and instantly redeem their currency in specie in some commercial center, as well as at their own counters. Where proper redemption is required, overissue of currency has never, anywhere, in the history of banking, had any perceptible influence in inciting or intensifying a financial crisis. Note the history of the Suffolk system, as also that of Virginia and Louisiana from 1840 to 1864. A very wide latitude in issuing currency was allowed banks, even up to their actual paid-up capital, and in some States to double their capital.

It is not the holders of currency that begin an unreasoning demand for specie from banks or from the United States Treasury. There is not an instance of panic or even monetary stringency being inaugurated by holders of currency, or a general demand for specie by holders of currency, until long after depositors were in panic and had done the mischief which reacted on the Treasury. It can not be shown that any normal bank has ever failed from the excessive issue of currency. The insolvency of banks is caused by the excessive or unwise extension of

loans, of which the issue of currency may bear an insignificant part, and our National Treasury to-day is the guarantor of every bank in the country, national or State, in its maintaining the gold standard. No contradiction of this statement is found in the fact that dishonest persons sometimes established or got possession of a State bank, stole its funds, or debauched its currency, as such persons have wrecked national banks.

On the other hand, the free issue of currency, and in amounts that would not have been justified in normal conditions, has prevented or allayed many a threatened or incipient panic, especially by the Bank of England, and in violation of law. Had our banks the right, and had they freely exercised it, in 1893, to issue currency up to their paid-up capital, bad as were other financial conditions, it would have prevented or safely and immediately relieved that panic. It was a currency famine caused by hoarding currency quite as much as of gold hoarding.

Banking is a contest from start to finish, in a pressure for credits by the borrower, supported by a desire for profits on the loans by the banker, on the one side, and a demand, on the other side, of payment and larger security by the banker. It finds its duplicate in the bulls and bears of the stock exchange. Bankers must have their every available asset at command to meet any and every demand, and to use at their absolute discretion at all times, as well as in crises, in order to prevent or to curb crises.

The Bank of England act of 1844 was passed to take away this absolutely necessary discretionary power. I quote from the *American Encyclopedia*:

"An examination of the operations of the bank (of England) demonstrates the fact that Sir Robert Peel entirely misapprehended the causes of the fluctuations complained of, and that he applied the restrictions to that particular branch which varied but little (amount of currency issued). \* \* \* The real cause of trouble was to be found in the loans (not in its currency). \* \* \* That this act (taking from the management their discretion in issuing currency) has had no effect in mitigating this crying evil will be clearly seen in the fact that these fluctuations have never been more violent than since its passage. \* \* \* In its efforts (on May 11, 1866) to save itself and comply with the absurd provisions of the bank act, it (the Bank of England) spread ruin and desolation around it, and years were necessary to enable the country (Great Britain) to recover from the effects of the panic thus (itself) created."

Those who think the currency restrictions upon the Bank of England meet the approval of the whole body of England's most experienced financiers are greatly mistaken. Scarcely one of them would not have a sense of great relief should he wake up any fine morning and find them swept away.

I am in no sense deprecating the beauty, strength, or wisdom of the "Old Lady of Threadneedle Street." I am only protesting that it does not lie in what all her true friends recognize as an ugly wart upon her nose, as Samson's did in his hair. The Hill-Fowler bill would transfer that wart to the nose of Uncle Sam and develop it into a malignant cancer, poisoning his life blood.

Under the Gladstone administration, "Mr. Low, as chancellor of the exchequer, introduced into the House of Commons in 1873 a bill providing \* \* \* that the act providing two departments might be

suspended by order of the Government upon certain conditions \* \* \* when the governor and deputy governor of the bank certified that panic had caused a portion of the bank notes nominally in circulation to be locked up and withdrawn from (actual) circulation. The authority of Mr. Gladstone's administration had declined when this bill was introduced \* \* \* and, assailed from many quarters, was withdrawn without the opinion of Parliament being taken on its merits. It was contended that Mr. Low's attempt \* \* \* to define beforehand the conditions of a panic was a logical contradiction. A panic has no laws; it has no fixed shape. It is precipitated we know not how, and we are in the midst of it before we are aware."

This amendment proposed by Mr. Low proclaims the fact "that in a stringency the people lock up the currency of the Bank of England, and that the law locks up its gold, and in its helplessness a crisis is thus actually precipitated and continued by the very provision of law avowedly enacted with the sole purpose of preventing or allaying crises such as are now created by it."

I repeat, the days of a run on a bank for specie, by presenting its currency for redemption, even in crises, are past, never to return, even under as liberal an issue of currency as was allowed by the old New England Suffolk system and that of Virginia and Louisiana (look at our experience in the currency famine and gold craze of 1893), always provided that every bank is compelled to redeem its currency in some "reserve city," as well as at its own counter, and also that the Government requires a very small safety-fund tax, to recoup itself for any loss from guaranteeing every dollar of currency issued by any bank, and keeps the same supervision and control as now of all banks issuing currency.

Of course, I shall be told of the suspension of specie payments by New England banks in 1857; but the fact is that they only nominally suspended specie payments at that time. Specie did not go to a premium, and all that was legitimately demanded of them by their customers in the way of their legitimate business was paid to them "on demand," and the banks soon recalled their nominal suspension. They continued to supply their customers with specie through that crisis, precisely as France and Germany now furnish gold to their customers. They kept their currency at par with specie precisely as the Bank of France and the Bank of Germany now sustain the silver and currency of those countries at par with gold. The State banks of New England, Virginia, Louisiana, etc., made a better showing from 1840 through 1857 and up to 1864 than the Bank of England did in the same period, during which period the restriction on issuing currency by the Bank of England was suspended several times.

Political and party rivalry, and that only, prevented the passage of the Low amendment by the British Parliament, and the safe removal of the hideous wart from the nose of the comely Old Lady of Thread-needle street, that looks so lovely to some, and that without leaving a scar.

Again, normally low rates of interest can not prevail where the true bank-note currency is not issued. This country has not seen a normally issued bank note since the State bank notes were taxed out of existence. It can be proven that the purchasing value of the wages or income of every man in this country is reduced by nearly one per centum per annum by our faulty banking, currency, and Treasury system.

I will quote only one more opinion on the issue of currency system of the Bank of England, but it is the final judgment of one of the most careful and experienced investigators and financial experts and writers in Europe. He expresses practically their unanimous opinion. Pierre des Essarts, chief of the bureau of economics and statistics of the Bank of France, author of the History of Banking in All the Leading Nations, etc., in an article published in the Journal of Commerce and Commercial Bulletin of New York, March 10, 1897 (which no one can afford not to read), says:

"The true bank note is unknown in the United States. The bank note should be simply a means of transforming a debt into cash. As between individuals the note is cash; but as between the issuing bank and the holder it is a credit instrument, because the note holder has loaned to the bank the coin he has a right to demand. \* \* \* When a bank of issue is properly managed, the circulation takes care of itself. \* \* \* These notes are sufficiently guaranteed if the property and securities against which they are issued (the assets of the bank) are valid and of sufficient value. \* \* \* England has adopted an automatic device for issuing currency notes which works well in ordinary times, but the insufficiency of which has often been demonstrated in critical times. We may note in addition that the bank's regulations for issuing currency notes, which are practically useless in normal situations, become futile or even dangerous when the bank is called upon for unusual exertions."

No man can suggest any substantial advantage in the division of the issue department from the discount department of the Bank of England over and above the law and practice of the Bank of Germany or the Bank of France or the New England Suffolk system as it existed before 1864, while its disadvantages are clearly stated by authorities beyond question. In fact, as I have said, in the Bank of England and nowhere else, excepting partially under our national bank act, is any approach to the English system in operation. It is patent to all that very nearly the universal opinion of European financiers is that the success of the Bank of England is in spite of—not because of—its thoroughly abnormal internal machinery for issuing currency and handling gold.

My excuse for this long paper is the strong effort that is being made not only to engraft upon our national banking system the currency system of the Bank of England, but to divert the United States Treasury, as Washington, Hamilton, and Gallatin made it, still further from its legitimate functions, and make it a huge bank, modelled upon what European financiers believe to be one of the absurdities of the English bank act of 1844.

Furthermore, the Bank of England is confessedly a monopoly, and its monopoly of currency the most excessive of its oppressive features. Our people demand all the freedom, the convenience, and the economy of the true bank-note currency of the old State banks, plus the security of national supervision and control of our national law, and also plus a small tax on currency to recoup the United States Treasury for its guarantee of every dollar of currency issued by the Government to the banks and put in circulation by them.

They have repeatedly refused to give up the United States legal-tender notes. They probably would consent that they be reduced to \$200,000,000 by paying \$146,000,000 of them with the gold now in the Treasury. They demand that the old Suffolk system shall be national-

ized, that the only power that can keep the \$200,000,000 legal-tender notes and all other currency and coin put in circulation at par with gold, absolutely free of expense, viz, the bank, shall do so by assuming the current redemption of the greenbacks pro rata to their capital.

No impartial investigator who will carefully examine the immense body of facts furnished by the Comptroller of the Currency, and those furnished by the chairman and published in the reports at the hearings before the committee, can come to any other conclusion than that no substantial relief can come to the United States Treasury by the enactment of any bill that is not drawn on the lines of the Walker bill (H. R. 10333).

Respectfully submitted.

J. H. WALKER, *Chairman.*

## APPENDIX.

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Not a single person has appeared before our committee who did not condemn the principle on which the Hill-Fowler bill (H. R. 10289) is drawn, and who did not approve the principle upon which the Walker bill (H. R. 10333) is drawn. This is so patent, when dissevered from commendation or condemnation of any particular bill, and therefore given without prejudice, that I append the following extracts from the testimony given before our committee and published in the "Hearings:"

### NO GOLD PAID INTO THE TREASURY.

The CHAIRMAN. What percentage of the present income of the Treasury is paid in gold?

Secretary GAGE. Perhaps one-half of one per cent; something like that. It is so small that I have not looked into the matter.

The CHAIRMAN. It cuts no figure?

Secretary GAGE. No; it cuts no figure whatever.

### CHANGES IN THE LAW SHOULD BE FEW AS POSSIBLE.

Mr. WALKER. Should not the changes proposed, while being thorough, make banking as free and allow currency notes to be issued to the people as freely and at the lowest possible cost that is consistent with its sure current redemption in specie and the sure and immediate payment of these currency notes in case of insolvency?

Mr. FAIRCHILD. That is my idea.

Mr. WALKER. The changes should allow those sections of the country where interest is highest to make the same relative profit on the currency issued in those sections as is made in the lower-interest localities, should it not?

Mr. FAIRCHILD. I should think so, most decidedly.

### UNWISE TO ATTEMPT BY MANDATE OF LAW TO UNDERTAKE TO COMPEL BANKS TO REDEEM IN GOLD.

Mr. STALLINGS. Does your bill provide that the national banks shall redeem their notes in gold?

Secretary GAGE. It does not.

Mr. STALLINGS. Do you think it ought to?

Secretary GAGE. After consideration I think it is indifferent whether it does or not. The reason I did not put it in was that I do not believe the Government, as an issuer of notes, ought to recognize any money on earth as better than its obligations, or discriminate against

itself or its obligations. If they say that greenbacks or any of the Government's obligations are not good enough for something, but gold is, they thereby cast a reflection upon their own notes. Besides, I think it would be purely immaterial. If you make the banks redeem in gold, then the banks must get the gold to redeem with. If they have the obligations of the Government, you may make it necessary for them to present the notes to the Government with which to get the gold to redeem their notes, \* \* \* and therefore it does seem to me expedient from all points of view, practically and theoretically, not to put that in the law. The banks, if they find difficulty in maintaining other forms of legal money that will discharge debts, will have to carry gold. They have now in their possession in the country some \$240,000,000 of that kind of metal, which is a pretty fair supply to start with.

Mr. HILL. \* \* \* Do you believe that it would be a wise course to pursue to make all bank redemption specifically in gold coin, eliminating the other legal tender of the country—silver and the lawful money, silver certificates?

Mr. FOWLER. Limit it to the notes, of course, and not the deposits.

Mr. FAIRCHILD. My idea in all this was that the Government should not in its laws discriminate against any of the money which it had in circulation, because the tendency of so doing was to drive it into the Treasury.

Mr. HILL. But that redemption should be in lawful money?

Mr. FAIRCHILD. That was my idea.

#### GOLD REDEMPTION BY GOVERNMENT OF ALL PAPER MONEY— TREASURY REDEMPTION IN GOLD.

Mr. BROSIUS. Now, how can we redeem the pledge we are under by existing law to maintain the parity of our money unless we afford some means for the people who hold paper to present those obligations for redemption in gold?

Secretary GAGE. We can not. I understand we have such a process now.

Mr. BROSIUS. If we take \$200,000,000 of the \$346,000,000 out of circulation and hold it in the Treasury, that can not be presented?

Secretary GAGE. No, sir.

Mr. BROSIUS. What kind of demand obligations will the people have to present to the Treasury to get their gold?

Secretary GAGE. They will have \$146,000,000 of greenbacks. They will have \$100,000,000 or more of Treasury notes, and they will have \$450,000,000 of national-bank notes. They could not present them to the Treasury, but they can present them to those who promise to pay.

#### PARITY TO BE MAINTAINED.

Mr. BROSIUS. I know that; but the Government has undertaken to maintain the parity of all our money.

Secretary GAGE. Yes, sir. \* \* \* The ability of the Government of the United States to maintain the parity between the different forms of its money outstanding depends upon its ability to control gold. So far as it can reduce the obligations that are outstanding, so far it increases its strength to take care of those that are out.

Mr. BROSIUS. Then the duty that we have undertaken, to maintain



the parity of gold and silver and all our money, requires that the people are afforded some means of getting gold with the other money?

Secretary GAGE. The means are open, as I look at it.

Mr. BROSIUS. Are there any means left after the demand obligations of the Government are taken out of circulation?

Secretary GAGE. Yes, sir; there would be if they were all out.

Mr. BROSIUS. What way?

Secretary GAGE. The way would be for people to present their obligations to the national banks.

#### UNDER GAGE BILL THE BANKS WOULD REDEEM THEIR NOTES IN SILVER.

Mr. BROSIUS. The Gage bill does not make it their duty.

Secretary GAGE. To do what?

Mr. BROSIUS. To redeem in gold. \* \* \* They would comply with the law if they redeemed in silver.

Secretary GAGE. They would. Now you have struck the point. You think that when the Government demand obligations are out it will have no function in maintaining a parity. It will have about all the function it wants to perform in keeping \$560,000,000 in silver money of the United States, and keeping that on a parity.

Mr. BROSIUS. How?

#### GOVERNMENT WOULD EXCHANGE GOLD FOR SILVER AND FOR BANK CURRENCY.

Secretary GAGE. By exchanging gold for it.

Mr. BROSIUS. A gold reserve would have to be provided for that purpose?

Secretary GAGE. I think so.

Mr. BROSIUS. Yes. Then, all the paper obligations being issued by the banks, the redemption of that would be left entirely to the banks?

Secretary GAGE. I think so.

Mr. BROSIUS. And then, if the banks refused to redeem in gold, or were unable to redeem in gold, the whole system would collapse, and we would go to a silver basis?

Secretary GAGE. I can not quite follow you. I thought you asserted a minute ago—

The CHAIRMAN. I think I can put a question right there that will perhaps clear this. The object of retiring this \$200,000,000 is to put it out of the power of anyone to use the \$200,000,000 to ask for gold redemption.

Secretary GAGE. That is correct.

The CHAIRMAN. It leaves out in circulation all the silver certificates and the Treasury notes. Now, what Mr. Brosius wants to get at is, how the Government gets gold if it proposes to redeem all those Treasury notes and certificates in gold.

Secretary GAGE. Well, that is another question. It makes little difference how they do it. I provide how they can do it a great deal easier than now.

The CHAIRMAN. How?

Secretary GAGE. There would be \$200,000,000 less to take care of.

The CHAIRMAN. Out of the \$700,000,000?

Secretary GAGE. Out of the \$930,000,000.

Mr. PRINCE. How many million dollars will the bank circulation reach at the same time?

Secretary GAGE. I think it will be something like \$500,000,000.

Mr. PRINCE. That, added to the \$730,000,000, makes \$1,230,000,000. So, if the banks have to redeem the gold, there are demand notes and in circulation, either against the Government or the banks, for which gold can be demanded, to the extent of \$1,230,000,000?

Secretary GAGE. Yes, sir.

#### GOVERNMENT TO REDEEM \$1,230,000,000 PAPER MONEY.

Mr. PRINCE. Now, you say that if the banks can not meet this and it is thrown back on the Government the Government will take possession of the banks, their assets, and property, and, to do its duty, it would redeem this \$1,230,000,000 in gold?

Secretary GAGE. Yes, sir; until they wound up business.

#### GAGE BILL DRAINS THE TREASURY OF GOLD.

Mr. HILL. How have you released the Government of any liability of redemption in that exchange of the \$200,000,000? It seems to me you have made it still more easy to drain the Treasury of gold. For instance, if a company of men wish to get \$200,000,000 of gold from the Government, instead of getting gold for greenbacks, why wouldn't they take bank notes and redeem them in lawful money, and then call for the gold with their lawful money?

Secretary GAGE. In the first place, they would have to get the lawful money. They have to find that lawful money. As fast as these notes are presented for redemption, the *difficulty of finding the lawful money will increase*. They must provide the lawful money. If they do find it, there is no way for the Government to escape payment of its lawful obligations.

Mr. HILL. They will get notes or silver, will they not?

Secretary GAGE. From whom?

Mr. HILL. From the banks; or else the bank fails.

Secretary GAGE. Yes, sir; and if the bank can not provide legal-tender notes, Treasury notes, or silver, it will have to provide gold. It will *provide that which is easiest*, of course, as anybody else will do. But I contemplate that under my bill I will diminish the lawful money \$200,000,000. I will make it relatively scarcer than it is now.

Mr. COX. When the bank note follows its process along until it reaches its redemption in the Treasury of the United States, does your bill propose to redeem that bank note in gold or other money at the option of the holder of that note?

Secretary GAGE. In the case you suppose, the note is redeemed at the [bank] counter.

Mr. COX. No; they refused to redeem it.

Secretary GAGE. You supposed he redeemed it in a greenback, and he took the greenback and went to the Government.

Mr. COX. He takes the note, or a bundle of notes, to the bank, and the bank refuses to redeem them in gold. He still holds those notes. Now, under your bill, is not the process incorporated into this, that a man can have those bank bills redeemed by the Government?

Secretary GAGE. Yes; he could send to the Government and get those notes redeemed.

Mr. COX. I so understood it all the way through. Now, he could take the bank notes, the bank refusing to redeem them in gold, to the Government—take the same notes to the Government—and the Government would be bound to redeem them in gold if he demanded it?

Secretary GAGE. It would be bound to redeem them in greenbacks or gold; yes. He could take the greenbacks and turn around and draw the gold, so it would be practically a redemption in gold.

Mr. COX. In other words, he could take the notes of the bank and go to the Treasury of the United States and the Government, under this bill, would be obliged to redeem those notes in gold?

Secretary GAGE. Substantially, yes.

But, mind you, the Government is not redeeming those notes on its own account. The Government is redeeming them on account of the bank.

Mr. COX. I understand that.

Secretary GAGE. Then the bank would have to account to the Government and reimburse it.

#### GOVERNMENT HAS NO CLAIM FOR GOLD ON THE BANKS.

Mr. COX. Certainly, and I take it that the Government would demand reimbursement in the same kind of money the Government had redeemed the notes in?

Secretary GAGE. No, sir. If the bank had satisfied its legal liability to the Government and recouped the Government with any form of money that the Government recognized—greenbacks, Treasury notes, gold, or silver—that, I think, would be sufficient.

Mr. COX. Then the Government, in the first step of redemption, redeemed the kind of notes I have spoken of in gold, and its obligation is such that you think it necessary, to maintain the parity, to redeem them in gold if the holder desires gold; but when the bank, which has got from the Government the benefit of banking, comes to pay the Government the bank can pay the Government off in any kind of money?

Secretary GAGE. Whose fault is that? That is the situation the Government is in, and going deeper does not get it out.

Mr. JOHNSON. What law is there to require the Government of the United States to redeem national-bank notes in gold?

Secretary GAGE. There is no law; but we have to redeem them in lawful money. We have to redeem them in something, and if it were so that a holder of these notes could go to another window and secure gold, it would be substantially as Mr. Cox says.

#### GOVERNMENT GETS THE POOREST MONEY.

Mr. FOWLER. Under your plan, as I understand it, the banks of the country could deposit your reserve fund in either greenbacks, Treasury notes, or silver certificates, could they not?

Secretary GAGE. Yes, sir.

Mr. FOWLER. Would there not be, under the pressure now felt in this country, a tendency on their part to get rid of the poorest of those three kinds of money and instinctively deposit silver certificates. Would not that be the tendency?

Secretary GAGE. That would be the tendency unless their faith in those notes is strengthened.

Mr. FOWLER. Let us assume, however, in going through this, that the banks would tend to pay into your reserve any legal-tender money, say in silver certificates. The result, then, is that there would be outstanding, mathematically, \$346,000,000 of greenbacks, \$115,000,000 of Treasury notes, approximately; and you have left \$136,000,000 of silver certificates in the place of the \$200,000,000 of silver certificates which have been deposited by the banks and are not a legal tender and can not draw gold; and in place of that you would have \$200,000,000 of national-bank notes, would you not?

Secretary GAGE. Outstanding? On your hypothesis; yes, sir.

Mr. FOWLER. I am not dealing with hypothetical questions, but a sad experience which we have had in the last three years. Let us go a step further. If it is true that you have added to the abstractors \$200,000,000 of that money, which to-day makes drafts upon the Government for gold, what defense has the Government against that draft? You have stated that whenever the Government attempts to recoup for that gold which it has paid out, the bank to which it sends its notes can then pay the Government in lawful money?

Secretary GAGE. If it has it.

Mr. FOWLER. Would it not be the most natural thing in the world for the banker—and I am asking you as a banker—to send in silver, Treasury notes, or certificates rather than to send in gold?

Secretary GAGE. It would depend, as I have said, upon two considerations—what relative supply he had of each and what respect he had for them; that is, his confidence in them. If he thought the gold was safer and better for him to have he would send the other if he had it

#### PANIC OF 1893.

Mr. FOWLER. That is the point exactly. Now, is it not a fact that we are drafting a bill, not to cover normal conditions, but to cover crises, and is it not true that whenever a crisis is on, such a crisis as we had in 1893, practically no money at all passes between people; and if it were thought that there is a chance of the Government not being able to redeem its obligations, would not everybody press the Treasury for gold, and if it is true, is it not true also that every bank would reserve its gold and pay out its paper money?

Secretary GAGE. In such condition of distrust of the standard, yes, sir. \* \* \* I do not know how to avoid the risk of the Government's responsibility except to cancel its debts and not owe anything. Then there would not be any trouble of the kind you suggest.

The CHAIRMAN. I wish to ask you whether it is possible to use paper money, and keep it at all times equal in purchasing power to the specie it represents, without having the coin sure of easy possession for the asking in exchanging it when the desire for it arises?

Secretary GAGE. I think not.

#### STOPPING THE MOVEMENT OF THE "ENDLESS CHAIN" PRODUCES PANIC.

The CHAIRMAN. Then any device that hinders or in any way delays or incites in the mind an apprehension that, upon desiring to exchange the paper money for the specie it represents, the specie may be refused or the obtaining of it delayed, tends to excite a desire to exchange the paper money for it and to incite a panic?

Secretary GAGE. It would incite distrust—that is, panic—and lead to a pressure for specie.

#### DEPRECIATING THE PRICE OF BONDS THE ONLY WAY TO PROTECT GOLD.

The CHAIRMAN. I prefer to use the word “specie,” you understand, because I do not want to raise the question of coinage. Is it not a fact that there are scores and hundreds, and, in the case of mortgages, stocks, bonds, and all things that easily and surely transfer wealth, thousands and millions of funds, that are quickly available, which are awaiting the depreciation of prices of such securities in order to purchase them at less than their normal price?

Secretary GAGE. I could not speak very authoritatively on that point.

The CHAIRMAN. I will ask Mr. Fairchild if it is not a fact that there are millions upon millions of funds, quick assets in banks, that are awaiting the depreciation of securities to purchase them?

Mr. FAIRCHILD. Yes, sir; there are always plenty of persons willing to buy at a depreciated price.

The CHAIRMAN. There is an immense number waiting to do so?

Mr. FAIRCHILD. I should think so.

#### RAISING THE RATE OF DISCOUNT WORKS THE DESTRUCTION OF THE DESIRE FOR GOLD.

The CHAIRMAN. The next question is, that the only principle upon which a safe and free issue of paper money redeemable in specie can be had is a principle that will work the destruction of a desire for specie, when it arises in the minds of the holders of the paper money that represents the specie, by then making other things more desirable to them than the specie. Is not that the principle on which the Bank of England raises the rate of discount and protects its gold?

Secretary GAGE. I should say it is, by satisfying the desire rather than by destroying it. That is the only amendment I should make to your statement. It appears in the form of statement.

The CHAIRMAN. How is it satisfied?

Secretary GAGE. Either with the gold itself or other things they prefer.

The CHAIRMAN. Is it not a fact that they will insist upon having the gold unless the action of the bank is such as to depreciate what we call solid securities to a point where they will prefer to buy them—I do not mean individually, but as a class—rather than take the gold? \* \* \* Is it not a fact that the raising of the rate of interest, when conditions are such that the rate of interest is forced up, forces down the price of solid securities, and that solid securities are shipped from one country to another and are accepted by persons rather than specie?

Mr. FAIRCHILD. \* \* \* I think we are somewhat misled by the raising of the rate of interest by the Bank of England. It does that specifically to protect the gold it has.

The CHAIRMAN. My point is, how does it protect the gold by raising the rate of interest?

Mr. FAIRCHILD. Just as it diminishes the borrowing demand. The Bank of England raises the rate of interest because the borrowing increases, and the result of that is to diminish the call upon the funds of the Bank of England, and all of the funds of the Bank of England

being gold, the result is to diminish the call upon the gold in the Bank of England. Now, in this country the same thing takes place when a man borrows a million dollars to pay a debt abroad. It makes a diminution of the loanable funds, and that of itself works an increase in the rate of interest, and when that rate of interest becomes large enough the seller of exchange, instead of meeting his remittances by the actual shipment of gold, finds a cheaper way to meet his bill of exchange.

Secretary GAGE. I agree with what Mr. Fairchild has said, but I do not think either of us yet has specifically answered your question. I am willing, for my part, to say the raising of the rate of interest tends to depress the price of securities and tends to depress the price of commodities.

#### BANKS RAISE THE RATE OF INTEREST BECAUSE COMPELLED TO DO SO.

The CHAIRMAN. Then the raising of the rate of interest by the Bank of England, or the banks of New York, or of Chicago, taking large cities first, is compelled by the financial situation. It is not a matter that they control, but they are compelled to do so to protect their deposits and to protect the banks. Is not that so?

Secretary GAGE. That is undoubtedly so.

The CHAIRMAN. That the bank officers do not by their own motion force up the rate of interest, but they defend themselves and defend their institutions from having their funds depleted by raising the rate of interest, and are compelled to do so by the situation?

Secretary GAGE. Yes, sir; and it is operated upon by the law of supply and demand in regard to loanable funds.

#### LEGAL RATES OF INTEREST.

The CHAIRMAN. Is it not a fact that the rates are never put high enough to prevent the loan of the funds of the banks up to a safe limit, under existing conditions?

Mr. FAIRCHILD. It never will be high so long as there are funds which it is safe for a bank, or a number of banks (if there are a number in a place), to loan.

#### RAISING THE RATE OF INTEREST PROTECTS GOLD.

The CHAIRMAN. Is it not a fact, Mr. Fairchild, that the desire for taking gold or anything else for shipment is an economic desire—unless it is a miserly desire, which we do not consider in this discussion—and when the rate of interest is raised it depreciates the price of securities so that it checks the economic demand for gold, and, added to that, is it not a fact the raising of the rate of interest by the Bank of England has been effective through all these years in protecting its gold?

Mr. FAIRCHILD. The raising of the rate of interest in England by the Bank of England as an indication and exponent protects the gold in England.

The CHAIRMAN. Is it not a fact that the raising of the rate of interest of the Bank of England in the last ten years has always protected the gold, for the reason men desire wealth for the income upon it, and that as the price of solid securities goes down the income increases or the securities are shipped and accepted in place of gold, and that is what protects the gold in the Bank of England?

Secretary GAGE. I think that is correct.

Mr. BROSIUS. In the Bank of England the rate has been as high as 10 per cent?

Secretary GAGE. Twice in my lifetime.

Mr. BROSIUS. In nearly every State there is a legal rate of interest, and under our banking law no national bank in any State can exceed the legal rate of interest there, so that there must be considered as a maximum rate of discount a great many different rates in the different States of the Union?

Secretary GAGE. You are right, except as to the State of New York, where, I believe, on demand loans on securities there is no limit as to the rate of interest. Am I correct, Mr. Fairchild?

Mr. FAIRCHILD. On securities.

Mr. BROSIUS. Let me understand that.

Secretary GAGE. And in Massachusetts I think there is no legal rate.

The CHAIRMAN. There is a legal rate in Massachusetts and in New York when there is no agreement made, but men have the right to make any agreement they choose.

Secretary GAGE. I so understand.

Mr. JOHNSON. On call loans?

The CHAIRMAN. On any loan.

Mr. FOWLER. I would like to have brought out the fact that on call loans in New York there is an exception to the statutory rate. Now, one question upon the matter of raising the rate: Is it not true, gentlemen, that after the rate rises to a certain point it is simply a question whether a large number of people who might profitably borrow at a lower rate do not borrow at the higher price because it will not be a profit to do so?

Secretary GAGE. It operates that way.

Mr. HILL. Connecticut has no rate unless it is fixed in the contract.

Mr. McCLEARY. Inasmuch as New York is the point of export, I wish to ask whether the rate in New York will not govern after all? And, therefore, are the rates of the several States very material in the case?

Mr. FAIRCHILD. I say that under present conditions I should suppose New York would largely determine the rate, although I might say that Chicago has lately been loaning a good deal of money in Europe. So probably the two go very much together; but New York would very largely influence it.

#### PEOPLE HAVE NO DESIRE FOR GOLD.

The CHAIRMAN. Wherever men are controlled by economic considerations the desire of men is for wealth which affords them an income, and therefore specie is never desired or even accepted in payment except for the purpose of selling it at a premium or for safety.

Secretary GAGE. That is a fair statement of fact.

The CHAIRMAN. The whole system of using paper money depends upon the instant and sure redemption in coin by the issuer of it?

Secretary GAGE. Upon perfect confidence in the coin redemption.

The CHAIRMAN. Let me ask a second question, which is developed by this. In order that paper money may be safely issued and used, is it not necessary that the issuer, directly or indirectly, be the redeemer of it?

Secretary GAGE. I think so.

## THE ENDLESS CHAIN.

The CHAIRMAN. Now we strike something that has been talked of in the country—that a fitting illustration of this process is an endless chain that never ceases for an instant to move potentially or actually, and anything that impairs any link in the chain does it injury.

Secretary GAGE. Your question involves figures of speech which fail always to carry exact ideas; but if I catch your thought—

The CHAIRMAN. Can you suggest a more apt illustration of the necessary inevitable constant flow of currency in and out, coming in contact potentially with the specie it represents, than an endless chain which never ceases for an instant to move potentially or actually, and that anything that impairs any link of the chain does the currency system injury? Can either of you gentlemen suppose a more apt illustration?

Secretary GAGE. I think there are a dozen you might use.

The CHAIRMAN. Will you suggest any one of the dozen?

Secretary GAGE. Say individual buckets. We have adopted the endless chain as a figure of speech, which probably conveys nearly the idea involved, namely, that whoever has demands against the Government or anyone else can take those demands and have them realized in redemption money, in specie. If these obligations are again issued, the new holder can do the same, and so there is a sort of circle established; or it may be, on the one hand, the notes flow out, and in the course of the movement of trade or commerce or distrust the notes come back in a circular movement. That is not a horrible thing; it is natural, reasonable, and proper, and the issuer should never complain. Let him meet his liabilities on demand.

The CHAIRMAN. Is not that what will take place in making a redemption fund?

Secretary GAGE. I think it is.

The CHAIRMAN. Can you suggest anything further, Mr. Fairchild?

Mr. FAIRCHILD. No, sir; I think that is perfectly true.

The CHAIRMAN. Assuming that there will be a recurrence of the distress of 1893, is it possible in such a situation and under such conditions to avoid an endless chain, as long as we have any obligations we redeem in gold?

Secretary GAGE. No, sir. You may sometimes make a strong endless chain and sometimes a feeble one. As long as there is a dollar of obligation of the Government out, that dollar can be presented to the Government. If it is redeemed and paid out it can be presented again, and can be presented as many times as it is paid out. That can be done with only one dollar.

## GOLD TAKEN OUT OF THE TREASURY IS LOST FOR USE IN REDEEMING PAPER MONEY.

The CHAIRMAN. Is it not a fact that gold taken out of the Treasury goes into the possession of forces antagonistic to the Treasury, and that gold taken from a bank is immediately returned to some other bank and is kept in the banking system, and the gold is not lessened in quantity? It is lessened in quantity by just that amount taken out of the Treasury which is available for redemption, while in the banks it is not lessened at all?

Mr. FAIRCHILD. Yes.

Mr. JOHNSON. In one sense the endless chain is not an evil. It is



essential in the construction of a currency system that there should be a presentation of the demand notes for redemption, but the evil lies in the fact that the Government does not possess the banking facilities to enable it to meet these demand notes without undue stress.

Mr. FAIRCHILD. Yes; the Government funds are constantly being depleted and never replenished in the ordinary course of its business, while with the bank transactions which call for the issue of its demand obligations contain the means for their payment.

#### GOVERNMENT CAN NOT SAFELY ISSUE PAPER MONEY.

Now, when the Government issues its demand obligations the transaction which issues them contains no means whatever for their payment.

Mr. JOHNSON. That is the very point I wanted to develop, wherein the work of the Government, as a bank issuing circulating notes, differs from a well-constituted bank.

Mr. FOWLER. The counterpart of any credit note that is issued by a Government or a bank is that it shall be currently redeemed in something of real value as a measure, in order that its soundness may be tested every hour if necessary?

#### THE ENDLESS CHAIN GOOD AND NOT EVIL.

Secretary GAGE. In order that a condition of health may prevail. Suppose that with a bank the same circular movement of gold goes on that was spoken of a little while ago. The probability is that every bank in every money center redeems every day from 10 to 15 per cent of its liabilities, creating new liabilities to someone else, and the next day liquidating again and again, always new creditors settling and satisfying former creditors. There is a substantial redemption of a bank's liabilities. A bank's notes are not different in their essential character from the bank's deposits. They are the same in their nature and are governed by the same general principles.

#### SELL BONDS TO MAINTAIN PARITY.

Mr. BROSIUS. Do you think that the parity of all our money under all circumstances could be maintained without the direct interchange of gold for silver, in case the holder of the silver demands it, and does not your commission bill proceed upon the assumption that gold will be given for silver when demanded?

Mr. FAIRCHILD. We provide in our bill that it shall be so given.

Mr. BROSIUS. That is direct interchange, is it not?

Mr. FAIRCHILD. That will be direct interchange; yes, sir.

Mr. BROSIUS. Can the parity of silver and gold be maintained under all circumstances without that direct interchange?

Mr. FAIRCHILD. I should say not so surely, under all circumstances.

Mr. BROSIUS. And therefore you have provided for that in your bill?

Mr. FAIRCHILD. Yes.

Mr. TAYLOR. By the terms of this bill a bank has to pay its depositors in some kind of lawful money. It may pay greenbacks, and when they are gone it may pay them in silver. If it pays them in silver, the United States stands ready to exchange gold for the silver, so the currency of the country rests upon such a basis that men will not only be able to obtain gold when they want it, but they can compel it when they want it.

Mr. COX. Here is a depositor in a bank who has a thousand dollars deposited. He calls upon the bank to make good that deposit. The bank has to make it good in gold or silver. If they make it good in gold, that is the end of it. If the bank pays him in silver, then the man can take the silver and go to the Treasury and get the gold. Is that correct?

Mr. TAYLOR. Yes, sir.

Mr. COX. Now, he leaves the silver there in the place of the gold. The difficulty, in my mind, lies in this. With that kind of process where is the Government to get the gold to redeem that silver or exchange it?

Mr. TAYLOR. Just as it does now. By its revenues, when they are sufficient, and when that is not sufficient by borrowing.

#### UNITED STATES NOTES DESTROYED BY SECRETARY GAGE IN MAKING THEM GOLD CERTIFICATES.

The CHAIRMAN. Mr. Secretary, you have said that if you had in the issue and redemption department \$200,000,000 of greenbacks to-day—and I suppose you include the \$125,000,000 of gold out of the general Treasury, making \$325,000,000—that the banks would immediately, you think, bring gold to the Treasury for the greenbacks?

Secretary GAGE. I think so.

The CHAIRMAN. Why should they not bring the whole \$200,000,000 they now have to take the greenbacks?

Secretary GAGE. Perhaps they would. I am naturally conservative in my estimates.

The CHAIRMAN. It would be to their interest to do so, would it not?

Secretary GAGE. I think it would.

The CHAIRMAN. Then, assuming that there are \$21,000,000 of greenbacks—I believe that is the estimate, somewhere from \$15,000,000 to \$25,000,000—destroyed, you would have either greenbacks in this issue and redemption fund or gold to make up the \$325,000,000?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Then that makes the greenback purely and absolutely a gold certificate?

Secretary GAGE. It makes it essentially so. I do not think it makes it purely and absolutely so.

#### EX-SECRETARY FAIRCHILD.

[Mr. Fairchild proposes to destroy legal tenders and have no paper money under \$10, except \$200,000,000 in silver certificates, and then banks can not get these certificates.]

The CHAIRMAN. You propose a destruction of the greenbacks, and to substitute for the greenbacks drawing gold from the Treasury the silver dollar?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Then you do not propose to have any means of reaching the gold in the Treasury after you have destroyed the greenbacks?

#### EXCHANGE GOLD FOR SILVER.

Mr. FAIRCHILD. We propose that the Government shall keep the silver dollars equal to gold.

The CHAIRMAN. How are you going to do that?

Mr. FAIRCHILD. By giving gold when anybody wants it; and we cal-

culate that an amount of gold kept in the Treasury equal to 5 per cent of the silver dollars in existence will suffice for that purpose.

The CHAIRMAN. If you propose to redeem the silver dollars in gold by the Treasury, you propose to redeem them on demand?

Mr. FAIRCHILD. Yes, sir; on demand.

Mr. HILL. I would like to ask a question now in regard to the questions asked by Mr. Cox. When this bill is in operation and effect, we will have three kinds of currency—gold, silver, or silver certificates, and bank notes—and that is all?

Mr. FAIRCHILD. Yes, sir.

#### NO PAPER UNDER \$10, EXCEPTING SILVER CERTIFICATES.

Mr. HILL. Now, as I understand the proposition of the commission, they think that the silver certificates under \$10 taking the place of the present national bank notes under \$5 in denomination, and Government currency, will be so firmly held that not even a panic will bring them to the Treasury for redemption?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. So, practically, for redemption money, there will be gold?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. Practically all?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. It will be used for redemption of bank notes, and there will be less silver dollars in circulation, but more silver certificates in circulation as a matter of convenience?

Mr. FAIRCHILD. I could not say.

Mr. HILL. That will be the working of it. Now, I wanted to ask you this question: Suppose a war to come, or some great demand for gold, is there any possible way in which that demand could be brought to bear upon the Treasury?

Mr. FAIRCHILD. No, sir.

#### BANKS CAN NOT GET SILVER.

Mr. HILL. Being unable to accumulate any reasonable amount of silver certificates or dollars, must not that gold be secured by taking national-bank notes to the banks for gold redemption?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. And they will regulate that matter by the operation of the rise and fall of interest, as is now done in England.

Mr. FAIRCHILD. Exactly.

The CHAIRMAN. Then you propose in your system to put the power of demanding the gold of the Government, the redeeming of money in gold, beyond the power of the people to reach; that is your point in the bill?

Mr. HILL. It puts it on the banks.

The CHAIRMAN. No, sir; I beg your pardon.

Mr. FAIRCHILD. I do not understand your question. I do not understand the assumption.

#### TO DEMAND GOLD PUT OUT OF THE POWER OF THE PEOPLE.

The CHAIRMAN. Your answer to the question of Mr. Hill was that the silver would be so absorbed that it was not practicable to get the silver with which to demand gold?

Mr. FAIRCHILD. Certainly.

The CHAIRMAN. That is your first proposition?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Now, your second proposition is that there is then nothing left in the community that they can get to bring to the Government to secure gold?

Mr. FAIRCHILD. Nothing whatever left.

The CHAIRMAN. Then what institution of individuals is to keep all of our money at par, each with every other?

Mr. FAIRCHILD. The people who issue it.

The CHAIRMAN. But where is the provision in law that anybody shall redeem it in gold?

Mr. FAIRCHILD. They can not redeem it in anything else.

The CHAIRMAN. The gold is to be in the Treasury?

Mr. FAIRCHILD. It would not be in the Treasury.

#### BANKS NOT REQUIRED TO REDEEM IN GOLD.

The CHAIRMAN. Do you provide by law that the banks shall redeem in gold?

Mr. FAIRCHILD. Not at all. In lawful money.

The CHAIRMAN. And your bill destroys the greenbacks?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. And you claim that the silver dollars will not be stored by the banks so they can get gold, as they now store greenbacks. Why will not the desire and the practice of the banks be to keep the silver dollars to get the gold, precisely as they now keep the greenbacks?

Mr. FAIRCHILD. Because the people must have them for use in their trade and business.

The CHAIRMAN. That is, you propose to make the getting of small money so difficult that the banks can not hoard it—can not keep it to get gold for? \* \* \*

#### SILVER MUST GO INTO BANKS.

The CHAIRMAN. Is it not a fact that this silver money, when it is paid in the natural course of retail trade, will be paid to the storekeepers for goods that the people buy?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. That is the use that will be made of it?

Mr. FAIRCHILD. Yes, sir; paid for car fares and hotel bills, and all kinds of things.

The CHAIRMAN. Then the answer to my question is that it will be paid by people in the retail purchases of the things they want?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Now, is it not the custom of all merchants, railroad companies, big merchants and small, to deposit that money in the bank?

Mr. FAIRCHILD. It is.

The CHAIRMAN. Then is it not the custom to-day for the banks to accumulate the greenbacks, retaining them and paying out something else?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Then will it not be the custom of the banks, under your proposed law, in order to have something that is the equivalent of gold for which to secure gold to redeem their bills, to keep the silver certificates to demand gold for?

Mr. FAIRCHILD. It will not.

The CHAIRMAN. Why?

Mr. FAIRCHILD. Because there will not be enough of it.

The CHAIRMAN. Well, I am done.

Mr. HILL. They will retain gold?

Mr. FAIRCHILD. Of course they will.

The CHAIRMAN. Then you fix the thing so that nobody can get any money on which to demand gold except bank notes?

Mr. FAIRCHILD. That is absolutely the case.

Mr. COX. Your theory, then, is, so far as the silver is concerned, that it will be put out in circulation and in the hands of the people, and consequently the banks can't concentrate it so as to draw gold from the Treasury?

Mr. FAIRCHILD. Yes, sir.

REDEMPTION OF UNITED STATES NOTES—UNDER WALKER BILL  
BANKS ASSUME UNITED STATES NOTES EQUAL TO  $12\frac{1}{2}$  PER CENT  
OF THEIR CAPITAL.

Mr. FAIRCHILD. I do not get very clearly in my mind how you relieve the Government of the greenbacks and the greenbacks still remain, making the banks responsible for them. Where, then, do you differentiate them from the other notes, as to reserves and liabilities? How do you arrive at that?

Mr. WALKER. Arrive at their current redemption?

Mr. FAIRCHILD. Yes.

Mr. WALKER. By requiring banks to deposit in lawful money in the Treasury a sum equal to  $12\frac{1}{2}$  per cent of their capital and destroy the existing greenbacks to the same amount and issue to the banks a new print of the greenbacks with their own bill printed on the back of them, which they shall sign and execute as though it were only their own note, and it is legal tender to everybody as now—every bank and every individual—except to the bank that takes and issues them. They will be the same as a Bank of England note. They are legal tender everywhere except at the bank whose note is printed on the back of them. That takes \$200,000,000, and the bill further provides that that amount shall never be increased, but that the percentage of  $12\frac{1}{2}$  shall be reduced. It does not mention \$200,000,000, but that is what it comes to. When that is once done,  $12\frac{1}{2}$  per cent will never be increased, but on the contrary may be reduced.

Mr. FAIRCHILD. If I apprehend your question, it seems to me that that is making a legal tender again of somebody's credit, and while that is economical, or might be economical, and we might like to limit it, I am afraid of the idea. I do not know that I do comprehend the idea fully, but if I do, I am afraid of the idea of making anybody take anybody's promise to pay if he does not want to take it. That would be my objection to your idea, if I understand it.

THE PEOPLE WISH TO KEEP THE GREENBACKS.

Mr. WALKER. The point is that the people insist on retaining the legal-tender notes and refuse to withdraw them.

Mr. FAIRCHILD. Under our bill they remain if the people do not want to have them paid.

Mr. WALKER. Do you mean all the people or the people who are the bankers? This becomes a political question.

Mr. FAIRCHILD. Anybody who holds them may refrain from present-

ing them for payment in gold if they prefer to have them; and my opinion would be, as I have already expressed it, that having once established our principle they would be retained certainly during the ten years, and even after they cease to be a legal tender they would be performing a very large function.

Secretary GAGE. Mr. Walker, I would like to ask you a question or two on that point.

Mr. WALKER. Certainly.

Secretary GAGE. Your proposition is equivalent, as I understand it, to the banks loaning the Government of the United States  $12\frac{1}{2}$  per cent of the amount of their circulating notes free of interest, substantially.

#### NOT A LOAN TO THE GOVERNMENT, BUT A CONVENIENCE TO THE BANKS.

Mr. WALKER. No, not at all; because if it was to a greater amount it might be, but being at an amount so small, only one-quarter of the cash reserve that the law requires them to keep, and being all taken up in the reserve, and the coin reserve being ample without that, they being treated as coin and performing all the work of coin, it is equivalent to allowing banks the liberty of using their own paper in the place of gold. The bill is drawn upon that theory, and allows the bank with 50 per cent of greenbacks to take out 50 per cent of currency, but whenever the bill gets into full operation, it may take 100 per cent the same as a bank with  $12\frac{1}{2}$  per cent, upon the theory that this was worth to the banks in practice as much as the gold.

Secretary GAGE. Still, it would remain true that the Government would get the advantage of \$200,000,000 without interest?

Mr. WALKER. Certainly.

#### COST BANKS NOTHING.

Secretary GAGE. The only difference is that it would be furnished by the banks without any sacrifice or cost?

Mr. WALKER. Yes.

Secretary GAGE. Since it would go into the bank reserves, being available to them in an ultimate case?

Mr. WALKER. It would never be circulated at all. It would take them from circulation as much as your system or Mr. Fairchild's.

Secretary GAGE. They probably would not be circulated, but if they were paid out the bank would have to redeem them and it would be as much a charge on them as if they were their own notes. Therefore, is it worth while to go through the machinery of those notes? Would it not be better for the banks to lend the Government \$200,000,000 for the privilege of issuing their own notes?

#### PARITY MAINTAINED BY BANKS.

Mr. WALKER. It absolutely relieves the United States Treasury from all responsibility for redemption, for my bill provides that all the banks shall pay a penalty tax of one-half of 1 per cent on their deposits if they fail to maintain the parity between the four kinds of money—the national-bank notes, the legal-tender notes, and the silver dollars, and the gold coin.

## A NEW UNITED STATES NOTE.

Mr. McCLEARY. I have been trying to picture this note that you have been describing. Am I to understand that it is a United States note on one side and a bank note on the other?

Mr. WALKER. Yes; it is the legal-tender note except to the bank that has its note printed on the back, and to that bank it is purely a currency note, like the rest of the notes it issues against its assets.

Is it not a fact that neither the Government Treasury here nor any subtreasury can currently redeem paper with the current funds as banks can do it? The Government can not do it without the actual presence of the legal redeemer? I address my remark to either Secretary Fairchild or Secretary Gage, or to both.

Mr. FAIRCHILD. Will you repeat that?

## TREASURY REDEMPTION EXCHANGE.

Mr. WALKER. Can the United States Treasury or any of its sub-treasuries currently redeem paper money as freely, immediately, and economically as the banks can redeem the paper money themselves?

Mr. FAIRCHILD. Do you mean can the Treasury redeem bank notes as economically?

Mr. WALKER. Paper money of any kind—paper money that they issue—as easily as the banks can redeem money they issue.

Mr. FAIRCHILD. That I can not say. That is a matter of statistics. I could not say as to the cost.

## TREASURY REDEMPTION TO COST \$27,000,000 A YEAR.

Mr. WALKER. For the cost of keeping the redemption of moneys—the whole system—the United States Government has held between \$200,000,000 and \$300,000,000 of money for twenty years. It is a cost to the people who are taxed to keep it of 6 per cent interest on that sum of money. Now, it is proposed in both your bill and in Secretary Gage's bill to add \$200,000,000 more, bringing the money in the United States Treasury up to \$450,000,000, and the interest on that costs the people 6 per cent. That makes \$27,000,000 a year for the privilege of the United States Treasury redeeming this paper money—that is, we have got to keep that amount on hand. Not only that, but the machinery of redemption, in the sense of products meeting products in the general funds of a bank, and their paper representatives, including currency notes, with its other obligations redeeming each other, not Treasury redemption, is not as convenient as it would be in a banking system outside the Treasury. Is not that a fact?

Mr. FAIRCHILD. That is a fact.

Mr. JOHNSON. Do you eliminate the United States Treasury in your scheme?

Mr. WALKER. Certainly. It is nothing to the public whether the Treasury receipts are more or less under my bill.

My bill absolutely relieves the United States Treasury from having anything to do with the current redemption of any money of any kind, and puts it on the banks, and on the theory that the banks can do it at no cost, that gold freely flows into the banks, and flows out of them where they issue true currency notes—paper money. That absolutely relieves the Treasury. My claim is that my system would relieve the

United States Treasury of keeping \$400,000,000, more or less, that your bills require to be kept in the Treasury.

Mr. FAIRCHILD. What is the \$400,000,000?

Mr. WALKER. There is \$280,000,000 now in the United States Treasury, more or less—some \$240,000,000 to \$288,000,000; \$288,000,000 it has averaged in some years.

Mr. NEWLANDS. Of what?

Mr. WALKER. I mean of "free moneys," as reported. Call it Government working note redemption capital if you choose. England has a working capital of about \$20,000,000; France a working capital of about \$30,000,000, and Germany a working capital of about \$20,000,000, and we have \$280,000,000.

#### PROPOSITION TO HAVE \$350,000,000 IN THE TREASURY.

Now, Mr. Gage proposes to take out \$125,000,000 of this \$288,000,000; he proposes to add \$200,000,000, making \$325,000,000, which is equivalent to adding \$200,000,000 to what we now have; while my bill relieves the Government of the necessity of keeping any money whatever except an ordinary exchequer balance, the same as any man keeps his business cash.

Mr. FAIRCHILD. Then somebody else is to take care of those things.

Mr. WALKER. It costs the Government interest on it and would not cost the banks anything.

Mr. FAIRCHILD. They do not make interest on the money in their vaults.

Mr. WALKER. That is true, but they would not have to keep any additional sum there under my bill.

Mr. FAIRCHILD. They would take care of the notes, and the banks would not have to do any more than now. Is that it?

#### BANKS NOW SUSTAIN THE TREASURY, COSTING THE PEOPLE \$50,000,000 A YEAR.

Mr. WALKER. The banks to-day sustain the Treasury and are at the expense of sustaining the \$1,000,000,000 that are in circulation. That is my assumption. Now, if the \$1,000,000,000 that is in circulation pays only 1 per cent, the people are in fact paying the difference between 1 and 6 per cent on the whole \$1,000,000,000 the way it is now issued—that is, \$50,000,000 a year in higher rates of interest. I ask you if that is not a fact?

Mr. FAIRCHILD. I do not get at that.

Mr. WALKER. Suppose there was no paper money in existence except that issued by the banks, and suppose the demands of the people call for \$1,000,000,000 of paper money, as now, and the banks issued it and kept that amount in circulation. We will put it in round numbers. The banks would make on that what their rates of loans and discounts were on their general business.

Mr. FAIRCHILD. Yes.

#### UNITED STATES TREASURY TO PAY THE CURRENCY IN CASE OF INSOLVENCY UNDER THE WALKER BILL.

Mr. WALKER. If they are not making any money on that, then the banks are losing that much that they otherwise would make under the English or Scotch or French or German or Suffolk or State bank system, or under the Walker bill. Is not that true?



Mr. FAIRCHILD. Of course; that is a mathematical statement; that if they do not loan the money then they are not making the interest on it.

Mr. FOWLER. Ultimate redemption, however, is thrown upon the Government.

Mr. WALKER. Yes, when a bank becomes insolvent, \$200,000,000 of it; but there is a tax that more than covers it.

Mr. FOWLER. But there is no limit to the tax?

Mr. WALKER. Yes.

Mr. FOWLER. The Government is responsible absolutely?

Mr. WALKER. Certainly; but there is a tax that will pay for that.

Mr. FOWLER. But if that tax doesn't happen to cover it the Government must take it up?

Mr. WALKER. Certainly; the Government guarantees in a statute the same as now, with a bond.

Mr. FOWLER. It is an absolute guarantee for all the banks may issue.

Mr. WALKER. Yes. The money is just as safe as the bonds, except it is written in the statute instead of being written in the bonds.

Mr. HILL. There is a 5 per cent held by the Government of its own money against its own notes.

Mr. WALKER. Yes; it would amount to \$10,000,000, and the bank also keeps with the Government an amount equal to 5 per cent of its currency, which it can not count in its reserve.

Mr. JOHNSON. Are you talking about your bill?

Mr. WALKER. I am talking about my bill.

#### TRUE VISIBLE GOLD.

Mr. WALKER. Now I want to call your attention to another remarkable thing. In the whole of the United States there was specie in the old State banks, in 1860, of \$2.69 per capita. To-day there is gold in the national banks to exactly the same amount—\$2.69 per capita.

Mr. FAIRCHILD. Does that include all the old State banks?

Mr. WALKER. All; yes, sir.

Mr. FAIRCHILD. Then the gold in the national banks is equivalent to the gold in the State banks?

Mr. WALKER. It is fair to say that the gold in banks in 1860 per capita was \$2.69 in this country. To-day it is the same per capita in the national banks alone. The amount in the State banks is not given to-day, but they hold of cash 44.7 per cent as much as the national banks. It is reasonable to suppose that there is \$1.20 per capita of gold in State banks, which, added to the other, makes a specie, probably gold, to-day, per capita, \$3.89, to \$2.69 in 1860. Now, \$3.96 in gold to each of the 73,000,000 amounts to \$272,300,000 in gold. The visible gold, as shown in the Comptroller's report, December 7, 1896, page 22, was \$421,236,388. Visible gold not in banks of loan and discount then was \$148,936,388. Total gold in the United States is \$696,270,542, by the report of the mint.

I did not suppose it was anywhere near that amount, but my recent investigation, and the fact that gold is paid in for taxes in St. Louis and other cities by comparatively poor people, leads me to think that there is more than that. I should not be surprised if \$800,000,000 developed if we had a proper banking system that fully restored confidence. The visible gold per capita—not the gold in pockets, but the visible gold in the various institutions—is \$5.77, and the total gold in the country is \$9.54 per capita that we know of, not counting that which is hoarded. I take the statistics as they are given.

Mr. NEWLANDS. Will you please state again what the per capita of visible gold is?

Mr. WALKER. Five dollars and seventy-seven cents. That was found by the investigation of Mr. Eckles, and was stated in his report of December, 1896, page 26. My point is, that if we had a banking system that would establish confidence, such as is felt in Germany, France, Canada, and Scotland, would not a large amount of gold that is not now visible be visible by flowing into banks at once, or at least very soon?

Mr. FAIRCHILD. I think so. I think if there was entire confidence in our monetary condition that we would see a great deal more gold.

#### SUFFOLK SYSTEM.

Mr. WALKER. The New England banking system—the Suffolk system—was understood to be about as safe a system as any country has ever had in its practical workings; so much so, that in 1857 scarcely a bank failed, and when they suspended specie payment (and then because New York had suspended and they were forced to do it for that reason) they paid, during the whole of that suspension to anybody that asked for it in the legitimate way of business, all the specie they wanted; and gold did not go to a premium by the smallest fraction during that nominal suspension.

Mr. McCLEARY. When was that?

Mr. WALKER. In the panic of 1857. The statements that I have made are matters of history.

Mr. McCLEARY. I do not doubt your statement, but was simply asking for information.

Mr. WALKER. Now, at that specie security we could issue to-day \$1,454,075,000 of currency, with 13½ per cent gold back of it, as New England banks then had.

Mr. McCLEARY. And have as good security?

#### SUFFOLK SYSTEM NATIONALIZED IN WALKER BILL.

Mr. WALKER. Yes. And have the same amount of gold in the banks back of the currency now, as through the New England system for forty years—the Suffolk system. The Walker bill is the Suffolk system nationalized. It is absolutely and purely that, and nothing else; that is to say, essentially the same as the Scotch and the Canadian and the German and the French systems now. Issuing \$800,000,000 of currency there would be visible gold in the banks within a small fraction of 24½ per cent, about double of what there was in the New England banks under the Suffolk system. The visible gold that would flow into the bank immediately would be 52 per cent, more than half, which is an unheard of percentage of gold to currency issued.

In view of these facts, have you any doubt about the safety in the specie reserve to maintain the \$800,000,000 currency that it is contemplated would be issued in the near future?

Mr. FAIRCHILD. I have no trouble on the specie question. I think there will be ample for that.

#### IMMENSE AMOUNT OF GOLD.

Mr. WALKER. In view of this immense amount of gold that we now have in banks and the additions that would find their way into the banks, namely, 52 per cent now of gold to \$800,000,000 of currency, if that is issued, is not the retaining of \$200,000,000 of legal-tender notes that the

banks can keep in reserve a good and not an evil in furnishing a redemption agent and a reserve? That is what I am getting at. I have introduced these facts, not with reference to the gold question, but to discuss this question: If the Government is relieved from current redemption, and it is put on the banks, and the banks have this immense amount of gold, is not the assumption of "current redemption" by the banks entirely safe?

Assuming what I have stated is correct, is it not a good and not an evil to continue \$200,000,000 of legal-tender notes so that they can be used as available funds by banks to supply and transfer balances rather than to be at the expense of transporting gold?

Mr. FAIRCHILD. It would not be necessary to transport the gold any more than we do at New York at the present time. There they have to put the gold in charge of the clearing house, and they have simply a piece of paper to represent it. It is a mere matter of ingenuity.

Mr. WALKER. In the absence of this \$200,000,000 of legal tender they would have to accumulate this \$600,000,000 of gold?

Mr. FAIRCHILD. Yes.

Mr. WALKER. Now, if that is so, would it not be a good to the country not to require them to accumulate the \$600,000,000, but be satisfied with \$400,000,000, and let them hold \$200,000,000 of greenbacks in the place of \$200,000,000 gold?

Mr. FAIRCHILD. Who is behind the \$200,000,000 in greenbacks?

Mr. WALKER. The banks. They have to redeem them the same as their own currency.

Mr. FAIRCHILD. Where do they get the gold for that?

Mr. WALKER. The same as to redeem any other currency notes of the banks—out of the \$621,000,000 of gold.

Mr. COX. Where do they get the \$421,000,000?

Mr. WALKER. It is "visible" in the country now.

#### TOO MUCH GOLD REQUIRED.

Mr. WALKER. As I understand it, Mr. Fairchild, the bill of the commission would destroy all the Treasury notes and legal-tender notes; it would so use the silver dollars that they could not be had to use in the cash reserves of banks; and this for the purpose of making it impracticable for banks to get any other money but gold to redeem their notes with. That would be the effect of it?

Mr. FAIRCHILD. That would be the effect of it.

Mr. WALKER. How much gold would it take to furnish all cash reserves now held by national banks?

Mr. FAIRCHILD. I have not figured on that.

Mr. WALKER. The report of the Comptroller of the Currency says that \$389,000,000 in round numbers in cash reserve is held in the national banks, and that in the State banks there is \$152,000,000 cash reserve, and he estimates there is about  $12\frac{1}{2}$  per cent of the State banks that do not report to the Comptroller. That would make the probable cash reserve now in the banks \$562,883,000. The question is whether that amount in gold would not overload the banks, whether it is not an unreasonable expectation, and even if the expectation could be realized whether it would not be an exceedingly uneconomical procedure to compel the banks to keep \$562,000,000 of gold, upon which the country must lose interest. That is to say, "a sufficiency is enough." The moment they get gold to more than what makes absolute safety the people are losing 6 per cent interest on the unnecessary surplus.

Mr. FAIRCHILD. Certainly.

Mr. WALKER. We want enough, and have both gone on the idea that a sufficiency is enough; but is not what is provided for in the commission bill an unreasonable amount?

Mr. FAIRCHILD. Possibly it is. I do not think it is an unwise amount.

**"TRUE BANK CURRENCY" BETTER THAN "BOND SECURED CURRENCY"—GAGE BILL "TENTATIVE."**

The CHAIRMAN. Mr. Secretary, you say your bill (H. R. 5181), which you have drawn and presented to the committee, "is not final, but rather a tentative step;" and again you say, "it will lead to conditions ultimately desirable." In order to know the virtue and value of the bill and the desirability of entering upon its enactment, it is necessary for the committee to know what you have in view and what you would call the completed whole.

Secretary GAGE. It would be a condition of affairs where there was a system of bank notes issued in the United States made safe to the people without the deposit in the hands of a trustee of specific security therefor, wisely limited and restricted by law so as to reduce to the minimum the possible abuses which might grow out of such a responsible duty, and eliminating substantially or entirely the Government of the United States from its present method of paying its debts by giving another debt in payment.

The CHAIRMAN. That completes the answer?

Secretary GAGE. I think it does.

The CHAIRMAN. Mr. Gage, in reply to the question as to what your scheme was tentative to, and to what you looked as final, you made a statement which is in the record. Upon reading your answer to the question, are you satisfied with it? [See above.]

Secretary GAGE. Yes, sir; it might be somewhat extended, but I think the idea is covered in that.

The CHAIRMAN. Mr. Fairchild, you listened to the statement of Mr. Gage. Do you agree with his idea?

Mr. FAIRCHILD. Yes.

#### **TRUE BANK CURRENCY.**

The CHAIRMAN. I desire to ask a question or two as to a "true bank currency" for the purpose of getting it in the record, so the people reading the record will know what we are talking about. A bank keeps at all times, in the regular conduct of its business, assets more than equal to every obligation against it, including its currency notes?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Secondly, a bank pays out every dollar it puts in circulation upon the receipt from the person taking it of ample security for its redemption?

Secretary GAGE. That is, in good practice and theory.

The CHAIRMAN. Thirdly, the currency of a bank is redeemed at its place of redemption by its general "current funds"—which are titles to products, and which are in the hands of another bank that acts as its agent in redeeming its notes, and not in actual coin?

Secretary GAGE. What do you mean by "current funds?"

The CHAIRMAN. I will put it differently. In the current funds that it has on deposit in its correspondent bank for the purpose of meeting all its obligations, including its currency notes?

Secretary GAGE. Yes, sir; that is true.

The CHAIRMAN. On the other hand, a (1) government gets nothing in the regular course of its business when it pays out its own currency, and (2) the coin must be constantly carted into the vaults to redeem, and carted out in redemption of paper money.

Secretary GAGE. The first part of the statement is correct, that when the Government pays out it does not acquire anything which it keeps to serve as an ultimate redemption for the note it pays out. The note it pays out is in consideration for services already rendered or for goods and commodities already received and used.

The CHAIRMAN. If you will turn to page 175 of the Treasurer's report for 1897 you will find that there was redeemed at the Treasury last year \$113,000,000, total redemption of national bank notes. In the second column of the table you will see there was \$33,000,000 of money that was actually sent out by express—that is to say, about one-third. The rest of the redemption was in checks on the subtreasuries sent to banks, as I understand?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Now, it is equipped with funds, either greenbacks or coin; if it was coin redemption, that coin had to be carted into the subtreasury from some source in order to meet the balance of \$80,000,000 redemption?

Secretary GAGE. That would be supplied in some manner.

The CHAIRMAN. Then the answer to my question, of course, is in the affirmative—that is, essentially true.

Secretary GAGE. That is substantially correct.

The CHAIRMAN. The currency issued by a government redeeming government currency can not be redeemed in general current funds—which are, of course, the titles to products—for it has none and can get none. The bank must send its specie to redeem its notes with, or the government must get specie by taxation or selling bonds—one or the other method?

Secretary GAGE. I see no other avenues.

The CHAIRMAN. I want to call your attention to the taxes proposed in the bill prepared by Secretary Gage and Ex-Secretary Fairchild.

Mr. BROSIUS. I would like to ask if you mean that these propositions embody the theory of banking?

The CHAIRMAN. And the practice.

Mr. BROSIUS. Do you mean to say these propositions express the actual practice of banks always?

The CHAIRMAN. I do.

Mr. BROSIUS. I can not give my unqualified assent now, and at some time I would like some explanation of these propositions.

The CHAIRMAN. Now is the time to record it.

#### BANK ASSETS.

Mr. BROSIUS. You say a bank keeps at all times, in the regular conduct of its business, assets more than equal to every obligation against it, including currency notes. If that is so, no bank could ever break up, and banks are breaking up.

The CHAIRMAN. I do not mean insolvent banks; I mean sound banks.

Mr. BROSIUS. That is an exception to the proposition.

The CHAIRMAN. It is implied in the questions.

Mr. BROSIUS. In the second place, you say the bank pays out every dollar it puts in circulation upon the receipt, from the person taking it,

of ample security for its redemption. If that is true there would be no bad debts. If all the money paid out is secured by ample securities, when are notes discounted by a bank not good at all?

The CHAIRMAN. I am speaking of a sound bank.

Mr. BROSIUS. Then, if it is the theory of banking, it is all right.

The CHAIRMAN. No; it is not the theory only; it is the actual practice.

Mr. BROSIUS. In the average of banks?

#### SECURITIES TAKEN FOR BANK CURRENCY.

The CHAIRMAN. No; I mean to say that where a bank pays out its currency notes it always takes from the man who receives the currency what it considers to be sound securities—it may be mistaken, but what it considers are at the time sound securities—for more than it pays out in currency notes.

Mr. BROSIUS. That is right, but that is a totally different proposition.

#### TRUE BANK CURRENCY REDEEMED BY THE MAN WHO TAKES IT.

The CHAIRMAN. No, sir; the second proposition is that the man who borrows, as a matter of fact, in good banking, himself redeems the notes that he takes from the bank. That would come in a little later, but I put it in now: Namely, the banks take the personal time note of the borrower on ninety days, and if its currency is averaged to be redeemed once in every ninety-two days, four times a year, the man who took the currency for the proceeds of the discounted note actually deposits the funds in the bank which redeems that currency. That is not theoretical, but practical, banking. These propositions are absolutely true, and can be found in the active banking of France, Germany, England, Scotland, Canada, and every other country that has a sound and true banking currency; and you can not have sound banking where the public Treasury is the redeemer.

#### NORMAL CIRCULATION.

Mr. NEWLANDS. Mr. Secretary, Mr. Fowler, in one of his questions, used the term "normal circulation." What do you understand by that?

Secretary GAGE. I do not understand anything by it. I do not know what is normal, and I do not believe anybody does or can tell; the law of supply and demand operates, and that determines what is normal.

The CHAIRMAN. And whatever that shows is taken out is normal?

Secretary GAGE. I think so.

Mr. FOWLER. Then it does mean something?

The CHAIRMAN. It means that whatever circulation averages to be taken out is thus shown to be normal.

Secretary GAGE. With that correction of my expression as to what the word meant, I should say yes.

#### ELASTICITY OF CURRENCY.

Mr. NEWLANDS. It is expected that the circulation that these bills call for will have the element of elasticity?

Secretary GAGE. It is expected it will.

Mr. NEWLANDS. As a matter of fact, is not this bank circulation practically an extension of the check and deposit system?

Secretary GAGE. That is what it is.

Mr. NEWLANDS. A practical extension of the check and deposit system?

#### BANK CURRENCY CHECKS.

Secretary GAGE. Substantially; a bank note issued by a banker is nothing more than a memorandum check which will draw money from the bank at any time at the pleasure of the holder.

Mr. NEWLANDS. It is a check payable to bearer?

Secretary GAGE. Yes, sir; it is, substantially.

Mr. JOHNSON. Do I understand you to say that an elastic currency, one which would expand and contract with the varying needs of trade, is as readily obtained on bond security as under some other form of security—as under security issued against the assets of the bank with a guaranty fund?

Secretary GAGE. I do not say that the secured circulation is as useful as the unsecured; that is another side of the question. I do not think it is useful to tie up capital needlessly.

Mr. JOHNSON. That is the point I wished to develop.

#### WALKER BILL.

The CHAIRMAN. I want to say to Mr. Fairchild and Secretary Gage that the bill prepared by myself meets exactly the conditions that you have suggested ought to be met in the banks you have designated in a proper banking system whenever you can get it.

Suppose there was no paper money in existence except that issued by the banks, and suppose the demands of the people call for \$1,000,000,000 of paper money, as now, and the banks issued it and kept that amount in circulation. We will put it in round numbers. The banks would make on that what their rates of loans and discounts were on their general business.

Mr. FAIRCHILD. Yes.

#### BOND-SECURED CURRENCY ROBS A BANK OF CAPITAL.

Mr. WALKER. If they are not making any money on that, then the banks are losing that much that they otherwise would make under the English or Scotch or French or German or Suffolk or State bank system, or under the Walker bill. Is not that true?

Mr. FAIRCHILD. Of course; that is a mathematical statement; that if they do not loan the money then they are not making the interest on it.

#### SECURE ON GOLD STANDARD.

Mr. WALKER. Mr. Gage, do you understand that France is absolutely secure on the gold standard?

Secretary GAGE. Yes; I think so.

Mr. WALKER. Do you not think Germany is absolutely secure on the gold standard?

Secretary GAGE. I believe so; but it does not make so much difference to me what Germany or France are on as it does what we are on, because our contracts are domestic and relate to all the trade and commerce which we get.

Mr. WALKER. I make the statement that the bill drawn by me puts us on precisely the same standard, in precisely the same manner, with

a little different machinery, as France or Germany, and if that is the fact, and that bill could be passed and this Monetary Commission bill could not, and mine accomplishes what you declare ought to be accomplished—

Secretary GAGE (interrupting). Then it would be perfectly satisfactory to me in that particular.

The CHAIRMAN. When a bank issues currency it has the right to take out against its assets to the limit of its capital. It secures currency to the amount of its capital, puts it in its vaults, and keeps out what it well can, having currency always in its vaults to put out whenever there is a call for it and they can get it out. It has, in addition to that, the capital, which is not depleted by a dollar in loaning currency.

Secretary GAGE. That is right.

#### CURRENCY ISSUED AGAINST ASSETS.

The CHAIRMAN. If they have to put up bonds they can buy at par and issue currency to the amount of the capital; it absorbs every dollar of their capital.

Secretary GAGE. That is right.

#### BANK CURRENCY REDUCES INTEREST RATES.

The CHAIRMAN. Then, if a bank can make loans of its deposits to an amount sufficient to make money enough to pay its expenses of every name and nature and they just balance (assuming that they can keep out all their currency)—then they can make loans at one-half the rate of interest they could if the capital was used up to take out currency secured by bonds.

Secretary GAGE. That is substantially true.

The CHAIRMAN. Now, every dollar of currency, where the currency is issued against assets that remain in the vault of a bank, remains there without the slightest loss to the bank, except the printing of it.

Secretary GAGE. That is true.

\* \* \* Suppose that with a bank the same circular movement of gold goes on that was spoken of a little while ago. The probability is that every bank in every money center redeems every day from 10 to 15 per cent of its liabilities, creating new liabilities to someone else, and the next day liquidating again and again, always new creditors settling and satisfying former creditors. There is a substantial redemption of a bank's liabilities. A bank's notes are not different in their essential character from the bank's deposits. They are the same in their nature and are governed by the same general principles.

#### BANK CURRENCY, THE FARMERS AND WAGE EARNERS' "CERTIFICATE OF DEPOSIT" AND BANK CHECK.

Mr. WALKER. Is it not the practice of merchants and manufacturers and those living in cities to leave the proceeds of a personal note discounted for them by a bank in the possession of a bank in the form of an "individual deposit," to be drawn out by checks, drafts, etc.?

Mr. FAIRCHILD. Yes.

Mr. WALKER. On the other hand, is it not the almost universal practice of the people who live in sparsely settled sections of the country, and especially the farmers, to take home with them the currency notes



of the bank discounting their time notes rather than to leave the proceeds in the bank discounting or in another bank?

Mr. FAIRCHILD. I understand that to be the case.

#### BOND-SECURED CURRENCY OPPRESSIVE.

Mr. WALKER. Then is not a very great hardship worked to those sections of the country under a banking system which does not allow the free issue of paper on the true banking principle?

Mr. FAIRCHILD. I consider it so.

Mr. WALKER. Is not a currency note to the person holding it the equivalent of a certificate of deposit or a certified check in the bank?

Mr. FAIRCHILD. It is, except that it is more available for him.

Mr. WALKER. Better for his purpose?

Mr. FAIRCHILD. Yes.

Mr. WALKER. Then it follows, does it not, that any great expense put upon banks in getting currency notes to issue is a great expense, hardship—in fact, oppression—to those citizens who do not use checks, drafts, etc., in their transactions, and who are practically compelled to use currency or do without banking accommodations?

Mr. FAIRCHILD. Yes, sir.

#### BOND-SECURED CURRENCY CHECKS ENTERPRISE.

The CHAIRMAN. It follows, then, that a currency made expensive, or one that lessens the amount of loanable funds the bank has on any given amount of capital and deposits, checks enterprise by making production difficult and expensive to those people who naturally and inevitably are shut up to the use of currency in getting bank accommodations instead of using checks, drafts, etc.?

Mr. FAIRCHILD. That is true.

Mr. HILL. Do you mean by your answer to imply that there should be unlimited bank issues?

Mr. FAIRCHILD. No.

Mr. HILL. Does not the question asked by Mr. Walker involve that?

Mr. FAIRCHILD. I did not so understand it.

Mr. HILL. Will you kindly ask Mr. Walker to have that read again, and in the light of that repeat your answer?

Mr. WALKER (reading the question again). That does not involve quantity at all. Do you wish to change your answer?

Mr. FAIRCHILD. No.

#### CURRENCY ISSUED FREELY LOWERS RATE OF INTEREST.

Mr. WALKER. It follows, then, that by issuing true bank currency a bank can make its loans to the people patronizing it at as much lower rate of interest than it could if it had only its capital and deposits to lend, and no currency, as the currency it has in circulation bears to the whole amount of its loans and discounts, and pay the same dividends on its capital stock?

Mr. FAIRCHILD. I should say that by the amount its circulation increases its resources it is enabled proportionately to give a greater accommodation to its customers, and necessarily at a less rate.

Mr. WALKER. Compelling a bank to buy bonds at par to secure its currency notes, even if the bank secures notes to the par of such bonds,

depletes its loanable funds, as compared with the "true bank currency" issued against its assets, by every dollar it pays for such bonds, does it not?

Mr. FAIRCHILD. I think so.

Mr. WALKER. Then, compelling banks to use "bond-secured" currency compels the people borrowing of such banks to pay a higher rate of interest as compared with banks issuing "true banking currency" against their assets—as is done in every other country—in proportion to the amount of such currency the bank uses in comparison to its whole loans and discounts?

Mr. FAIRCHILD. It seems to me that is very much the same as the other question. I would repeat my answer to the other question.

#### TRUE BANK CURRENCY ISSUED BY COUNTRY BANKS.

Mr. WALKER. Mr. Fairchild, the statistics collected by the Treasury Department show that in Vermont all the banks combined (not a single bank) kept in circulation an average of 103 per cent of the currency to its capital. You will find the statistics on page 441 of the hearings before this committee in 1896. Old Virginia kept out 96 per cent; North Carolina 95 per cent. You will find by turning to page 458 that 55½ per cent of the country banks in Massachusetts—outside of Boston, which had the least currency—had over 64 per cent; Ocean bank, Newburyport, 91 per cent to capital; Powow River, Salisbury, 110 per cent; Brighton, 112 per cent; city of Cambridge, 96 per cent; Malden, 87 per cent. This indicates, does it not, that the poorer sections of the country, the agricultural districts, like Vermont and North Carolina and Virginia, can keep in circulation if they are allowed to do so, about 100 per cent of currency to capital?

Mr. FAIRCHILD. It shows that they did.

The CHAIRMAN. Is it not a fact that the average of the banks in the country can keep in circulation nearly double the currency at certain seasons of the year over what they can at other seasons?

Mr. FAIRCHILD. I do not know the exact proportions.

Mr. WALKER. But usually much more?

Mr. FAIRCHILD. It is usually much more.

#### BORROWERS GET THE ADVANTAGE OF "FREE CURRENCY ISSUE."

Mr. WALKER. Where the business of banking pays a larger profit than other business of like labor and risk, will not capital be invested in new banks in competition with existing banks until the profits in banking are reduced to the general average of incomes in other investments?

Mr. FAIRCHILD. That is the natural law of such things, in banking as in anything else.

Mr. WALKER. Is it not within your knowledge that in Canada, Scotland, Germany, and France the rates of loans and discounts all over those countries are very nearly the same where the same risk is incurred and the same time and amount is involved?

Mr. FAIRCHILD. That is the case in Canada, and I understand in Scotland also.

Mr. WALKER. It is because the branches in the country allow them to circulate such an enormous amount of currency that it is possible. It is the currency privileges of banking that they could not exercise if they were strictly a city bank; but with branches out through the

country it enables them to circulate their currency, which keeps the rates down in the country as compared with the city?

Mr. FAIRCHILD. I think that has a great effect upon it.

#### INTEREST REDUCED ONE-HALF.

Mr. WALKER. Assuming that the money made on its deposits by a bank with a capital of \$100,000 was exactly equal to its expenses of every name and nature, including the current redemption of its currency notes, if it has any, and assuming the bank has no currency notes to issue and has its \$100,000 funds equal to its capital loaned to customers on notes, each having three months to run and discounted at the rate of 6 per cent per annum, the net profit on its business would just equal 6 per cent on its capital stock, would it not?

Mr. FAIRCHILD. Its deposits pays its expenses—

Mr. WALKER. Of every name and nature. It has \$100,000 capital to loan and no currency?

Mr. FAIRCHILD. It will get 6 per cent, of course.

Mr. WALKER. If it can take out \$100,000 currency and keep it in circulation, it can make loans at 3 per cent and make the same amount of profit?

Mr. FAIRCHILD. Exactly.

#### CITY BANKS CAN NOT ISSUE CURRENCY.

Mr. WALKER. Is it possible for city banks without branches to circulate very much currency—those banks whose business is what might be called a strictly city business?

Mr. FAIRCHILD. It is not.

Mr. WALKER. Practically it can circulate none; it comes back in the clearing house the next morning?

Mr. FAIRCHILD. Yes.

#### TAXING CURRENCY OBJECTIONABLE.

Mr. WALKER. Is not this 2 per cent tax on currency between 60 per cent and 80 per cent, in view of what I have said about Vermont and Virginia, a restriction working a hardship, and does it not work exclusively to the expense and hindrance of the circulation in country districts, where they actually need considerably above the 60 per cent?

Mr. FAIRCHILD. I think that is the objection to it. That is my objection.

#### BANK LOSES INTEREST ON BOND-SECURED CURRENCY.

Mr. WALKER. Where currency is issued as it is to-day, does not the bank actually lose on each dollar of currency not in circulation an amount equal to its rates of loans and discounts, less the profit the bank would make were all its currency notes in circulation?

Mr. FAIRCHILD. Yes; that is true.

Mr. WALKER. Does not any system of currency that makes the currency held in the vaults of a bank an actual loss to the bank under any circumstances compel the bank to increase the loan and discount rates to the people to an amount equal to the losses made on the currency that it holds in its vaults?

Mr. FAIRCHILD. It does.

## UNITED STATES BOND-SECURED CURRENCY A "PER CENT RATE CURRENCY."

*Market price of United States 4 per cent bonds of 1907.*

	Quotations of market price of bonds.		Rate real- ized.	National-bank currency notes in circulation.
June 30—			<i>Per cent.</i>	
1881.....	{ 117 $\frac{7}{8}$	R.	{ 3. 047	\$312, 223, 352
1882.....	{ 118 $\frac{1}{8}$	O.	{ 2. 926	308, 921, 898
1883.....	{ 118 $\frac{7}{8}$	R.	{ 2. 895	311, 963, 302
1884.....	{ 119 $\frac{1}{4}$	O.	{ 2. 909	295, 175, 334
1885.....	{ 123 $\frac{3}{8}$		{ 2. 654	269, 147, 690
1886.....	{ 126	R.	{ 2. 403	238, 273, 685
1887.....	{ 127	O.	{ 2. 448	166, 625, 658
1888.....	{ 125 $\frac{1}{2}$		{ 2. 243	155, 315, 353
1889.....	{ 127 $\frac{1}{8}$	R.	{ 2. 095	128, 867, 425
1890.....	{ 128 $\frac{3}{4}$	O.	{ 2. 451	126, 323, 880
1891.....	{ 128 $\frac{1}{2}$	R.	{ 2. 735	123, 915, 643
1892.....	{ 129 $\frac{1}{2}$	O.	{ 2. 666	141, 661, 533
1893.....	{ 121 $\frac{1}{2}$	R.	{ 3. 200	155, 070, 821
1894.....	{ 122 $\frac{1}{2}$	O.	{ 2. 749	171, 714, 552
1895.....	{ 116 $\frac{1}{2}$	R.	{ 2. 753	178, 815, 801
1896.....	{ 117 $\frac{1}{2}$	O.		
New "fours" of 1925.				
February 5, 1896.....	112	.....	3. 351	212, 023, 386

This table shows that the 4 per cent bonds of 1907 bonds average to sell at prices to the purchaser in 1889, per cent ..... 2. 095

Average to pay at prices sold for during 1887, 1888, and 1889, three years ..... per cent. . . . . 2. 292

From 1883 to 1892, the eight years previous to the panic of 1893 ..... per cent. . . . . 2. 462

Note circulation of national banks in 1881 ..... \$312, 223, 352

Note circulation of national banks on June 30, 1890..... 126, 323, 880

And this decrease in bank-note circulation was before the increase in currency under the silver act of July 14, 1890.

National bank note circulation one year later, January 30, 1891, was only ..... 123, 915, 643

National-bank note circulation on February 5, 1896, because of ruined Government credit, has run up to .... 212, 023, 386

Mr. WALKER. I wish you to look carefully at this table, and answer this question: Whether it is not fair to say that a currency that shrinks as bonds appreciate and that increases as bonds depreciate is a freak currency?

Mr. FAIRCHILD. Well, I should think that it is a very bad currency, but exactly what the financial and scientific application of "freak" is I am not prepared to say.

#### OUR CURRENCY SYSTEM THE WORST IN THE WORLD.

Mr. WALKER. In testifying before the committee last year, after considerable discussion and answering questions upon the point, the Comptroller of the Currency, Mr. Eckels, put his appreciation of the financial system in these words: "Yes; the United States has the worst financial and currency system of any leading nation." What do you think about our financial and currency system, as compared with those of other leading nations of the world?

Mr. FAIRCHILD. I think it is the worst.

Mr. WALKER. You understood the question to be comparatively and not specially or personally denouncing our currency, but that, as compared with other nations, it is the worst of any you know of among leading nations?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. I understand that.

#### PROTECTION OF STOCKHOLDERS.

Mr. FAIRCHILD. Now, there is no way that I know of to protect the stockholders and depositors except by greater vigilance in your examinations and that sort of thing.

Mr. VAN VOORHIS. Do you not think we could retire a portion of the obligations of the Government, and by retiring the small notes and refunding the bonds that are now outstanding, on a 2½ per cent basis, perhaps, do you not think we could have a secured currency?

Mr. FAIRCHILD. That would not be sufficient. We could have secured currency, but I do not think that a secured bank-note currency at all answers the purpose of a community in its true sense of a bank currency.

The CHAIRMAN. What do you mean by "secured?"

Mr. VAN VOORHIS. Secured by bonds.

Mr. FAIRCHILD. Of course, it is all secured, but it is the method of securing it.

Mr. VAN VOORHIS. I have questioned all the way through the propriety of issuing this credit currency unless we could have a secured currency based on the bonds of the Government. I believe that would be better.

Mr. FAIRCHILD. You can not have a currency based on the deposited bonds of the Government that is any more secure than the currency we offer here. It is not a bit more secure and not nearly so useful.

Mr. WALKER. Are not the currency notes issued by banks every way sound, and quickly available, with the guaranty for the payment in case of insolvency of the bank written in the statute authorizing the issue of them, and appropriating the money necessary to pay for and create a safety fund, to pay them—in every way as safe as a currency created by bonds?

Mr. FAIRCHILD. I should say so. It is an obligation of the Government in one case as it is in the other, I think.

The CHAIRMAN. The principle of the present law is to take out of the bank the day it begins business all of its capital and lock it up so it can not loan it.

Mr. TAYLOR. I agree with you.

Mr. COX. \* \* \* Now, you being an experienced man in finance, is not the community itself the best judge of what currency it needs and what currency the community can handle?

Mr. FAIRCHILD. Undoubtedly.

Mr. COX. Then would you not be in favor of a law that would repeal this tax and prohibit the local currency?

Mr. FAIRCHILD. My individual opinion on that subject is now and always has been that the United States should provide as perfect a banking system as it can. \* \* \* The laws and constitutions of many of our States are such that you can not get any local circulation under them. Texas, I believe, absolutely prohibits a thing of that kind. Therefore, in order to make anything that is complete in the attitude of our States toward it now, it is evident that it is not only better to have a national system, but it is absolutely necessary. To supply Texas, for instance, Arkansas, and quite a number of those States, it is absolutely necessary to have a national system, or else they would have to reverse their whole action, and that would be a long process.

The CHAIRMAN. \* \* \* Under the Walker bill, the currency of which is issued on the true currency principle, the profit is identical on each \$1 in circulation.

Secretary GAGE. I have no doubt, Mr. Chairman, that your bill offers better inducements and more profit to the bankers than our bill.

The CHAIRMAN. Have you any doubt that it works out just as safe to the Government, to the banks, and to the holders of currency?

Secretary GAGE. No, I have not; with proper restrictions and limitations.

#### BANKS PROTECT BORROWERS IN PANIC.

The CHAIRMAN. Is it not a fact that the minute a bank is threatened all the business community rushes to increase their discounts and loans and deposits, and that that is what intensifies the panics so much, plus the drawing out of deposits?

Mr. FAIRCHILD. You mean it tends to borrowing of more money?

The CHAIRMAN. Yes. They want to increase their loans and discounts.

Mr. FAIRCHILD. Yes; they do that.

The CHAIRMAN. Banks then say: "We can not increase your loans, but we will take care of you;" and saying that all over the country checks the panic. That is true, is it not?

Mr. FAIRCHILD. Yes.

#### CURRENCY NOT ISSUED AGAINST DEPOSITS.

Mr. BROSIUS. Do you think it desirable, and if so, on what principle, to issue currency against deposits? \* \* \* Your bill provides for issuing currency against the assets of the banks. Of course, you understand that the deposits are a part of the assets.

Mr. FAIRCHILD. Oh.

Mr. FOWLER. The deposits are not assets.

Mr. BROSIUS. Yes, they are.

Mr. FOWLER. They are liabilities.

Mr. BROSIUS. Take all your deposits. Your currency is the first lien upon all the assets of the banks.

Mr. FAIRCHILD. You mean the reverse. The deposits are a liability. The deposits are a lien upon the assets.

Mr. BROSIUS. I do not care about the use of technical words. The point is that when you issue the currency against the assets of a bank and make those notes the first lien upon the assets, that act covers the deposits and the depositor loses his money just in proportion as his money is taken to make good the notes. Do you think it desirable, on general principles, to issue currency against assets and make that currency the first lien upon the depositor's money in the vaults of that bank?

Mr. FAIRCHILD. I do.

Mr. BROSIUS. Upon what principle can you justify it?

Mr. FAIRCHILD. A depositor need not put his money there unless he wants to. He knows what the arrangement of the bank is. That is true to-day.

Mr. BROSIUS. You say that is exactly what you do to-day?

Mr. FAIRCHILD. Yes. . .

#### DEPOSITORS FREELY TAKE THE RISK.

Mr. BROSIUS. So in any event the loss falls upon the depositors?

Mr. FAIRCHILD. It always does.

Mr. BROSIUS. Is it not fair to assume that in cases of fraud such as you suggest, where the capital of a bank is simply gobbled up, if they had not deposited a certain amount of capital in place of the bonds, they would have stolen that also? And is it not a clear question of saving whatever amount of bonds they deposit?

#### RASCALS STEAL THE WHOLE BUSINESS.

Mr. FAIRCHILD. They would have stolen that also.

Mr. BROSIUS. They can not steal bonds, you know.

Mr. FAIRCHILD. They have stolen the whole business in the same way. The net result in dollars and cents to the stockholders of that bank is the same. Of course when they have invested in common bonds they have their notes banked, because they have run away, and have done the same thing with the deposits. The notes stand there to get the United States bonds, but the capital and the stock and everything is gone.

Mr. BROSIUS. No; but the bonds are not gone, Mr. Fairchild, and therefore the note-holder is made whole.

Mr. FAIRCHILD. That I admit—that the note-holder is made whole; but every dollar that was put into that bank is gone.

Mr. BROSIUS. I do not see it in that way, because the bonds were paid for by a part of the capital, and that portion could not be gotten away.

Mr. FAIRCHILD. The only thing that remains at present is the difference between the premium on bonds and the amount of notes that they got.

Mr. BROSIUS. Whatever remains goes to the note-holders to pay the notes?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. The point that I make is that if a portion of that capital had not been invested in the bonds the whole thing would have been stolen, and neither note-holder nor depositor would have gotten anything.

**NOTE-HOLDER SECURE.**

Mr. FAIRCHILD. As far as the note-holder is concerned, we have provided for taking care of him as securely as he is taken care of now.

**CANCELING SILVER CERTIFICATES—POPULAR USE OF COIN MONEY.**

Mr. FOWLER. If the certificates—the ones, twos, and fives—were all canceled, and the silver was out at the end of a year, do you not think the people would be as well satisfied as they are now with the certificates? With California before you as an illustration, with Mr. Garnett, who lives there, refusing to sign the report recommending this bill, because he uses silver, and with the practices of Germany and France and other countries before you, do you not think that at the end of a year the people would be just as well satisfied with the silver as they would be now with the small certificates?

Mr. TAYLOR. I do not think so. They would take it if they had to.

Mr. McCLEARY. Would not that fact—the presence of the gold and silver in the hands of the people from day to day—be the best kind of an education in the other direction that you spoke of a while ago? Would it not be the best kind of an education as to what money really is?

Mr. TAYLOR. Well, it would be a good object lesson, but I do not think I am prepared to say it would be the best one.

The CHAIRMAN. Would not that be the only way to find out what the people want and to get their opinion of any currency system?

Mr. TAYLOR. Yes, sir.

The CHAIRMAN. Do you know of any other Government in the world that coins money and then itself issues paper representatives of it direct?

Mr. TAYLOR. I do not know that I ever heard of one.

The CHAIRMAN. Does not that contradict the whole theory of coinage?

Mr. TAYLOR. I think it does. I think it is an inconsistency in our system.

\* \* \* \* \*

The CHAIRMAN. Is it not a fact that a very large body of our people, children especially, who handle a large part of the money in taking it to stores, and the very large laboring population of the South, and the ordinary laboring men, can carry coin in their pockets with greater safety and less liability of loss than they can carry paper, and is it not also true that the paper often gets wet and crumples up and the germs of disease get in it, and everything of that kind? So, would it not be of great sanitary benefit and economic benefit in every way in protecting the people from loss to have all money, say under \$5, in coin?

Mr. TAYLOR. There is great force in that, Mr. Chairman, and I think our people would be better off if that could be brought about. I think they would be better off if they used more coin money. I may be telling tales out of school, but I will say that when this was under discussion in the commission I made a motion that the smallest paper bill should be \$3 as a compromise. I think the people would stand that, without much complaint. I believe if you would go to \$5 there would



be a great deal of complaint, but that if you say \$3 the people would not seriously complain, and perhaps in that way you could accustom them to the use of coin, and eventually they would allow \$5 to be the lowest denomination of paper money.

Mr. NEWLANDS. Do you not think that in this country there are a great many people who do not know that the silver is still in circulation through the silver certificates?

Mr. TAYLOR. I can not say that I have found any such people among my acquaintances.

Mr. NEWLANDS. I have met with a great many myself, and abroad I found that that was quite a general impression, that we had a great stock of silver here and that it was not utilized.

Mr. TAYLOR. That might be so. I can not say.

The CHAIRMAN. Whether that is so or not, not one man in a thousand, when he receives a bill, stops to see whether it is a bank note or a silver certificate, or what it is. Unless his attention is especially called to it, he does not notice it. There is no distinction; he thinks that it is all national-bank money.

Mr. TAYLOR. Very few people notice the difference, or think of the difference.

The CHAIRMAN. And they do not know that this coin is collateral for these silver certificates?

Mr. TAYLOR. Very few people think of that. That is one of the consequences of the greenback circulation. It has accustomed the people to take pieces of paper with pictures on them. That is all they notice.

The CHAIRMAN. Is it, then, your opinion that the general feeling of affection which the people seem to have for the greenbacks is because they want the paper money?

Mr. TAYLOR. No; not that merely; not because they want paper money merely. I think the affection of the people for the greenbacks is a peculiar patriotic instinct. The greenback is associated in their minds with the preservation of the Union.

The CHAIRMAN. And you think the majority of the people in the ordinary way of life draw the distinction between the greenback and the bank note, and so on?

Mr. TAYLOR. Not at all.

The CHAIRMAN. That is what I meant.

Mr. TAYLOR. No; not at all. In actual transactions I think men very rarely take notice of what kind of money they are handling.

#### BANKING IN AGRICULTURAL COMMUNITIES.

Mr. HILL. What is the purpose of section 12, providing for small banks?

Secretary GAGE. More particularly for agricultural communities. There is always a small business center somewhere in every sort of community.

Mr. HILL. Generally speaking, you now refer to agricultural communities, in which there would largely be agricultural loans?

Secretary GAGE. Very largely.

Mr. HILL. Do you believe it is possible for a national bank or any bank to be made a bank of issue with the facilities for prompt redemption which you have provided here, making agricultural loans against notes issued on demand?

Secretary GAGE. I think agricultural loans, properly made, are among the best loans in the world.

Mr. HILL. I know it, but can they be made as against demand issues of bank notes?

Secretary GAGE. They can, within reasonable range; yes, sir.

Mr. HILL. How is it possible for a bank, say, of \$25,000, situated in an agricultural community, to exchange its circulating notes for long-time agricultural notes and maintain redemption of its own notes?

Secretary GAGE. By "long-time agricultural notes" do you mean four or five year loans?

Mr. HILL. I mean six months, as against their own notes outstanding.

Secretary GAGE. I think they could.

Mr. HILL. In what way would they be able to do it?

Secretary GAGE. Because the community we are supposing is a community where the circulating capital is small, and as long as crops were in process of being gathered and brought to market, and the expenses connected with them being paid off, there would be a local use for any circulating medium which this bank would supply, and it would stay there until crops (which ought to be more or less varied in every community, and are more or less varied), would begin to go forward to market; and that generally happens four or five months before the following crop is sown and the expense incidental to raising that crop inaugurated. When the crop goes to market the fund would be found to redeem the notes. The notes would find their way to the redemption centers if the community owed more than the crops paid. Then the notes, like any other form of money, would go forward to settle the difference, and they would be redeemed. \* \* \* It is now an impoverishment of a community to start a national bank. Take a little community that can scarcely raise \$50,000 capital. What does the Government require of it? It requires, in the first place, \$25,000 of that to be sent to Wall street to buy bonds, and then it may, and as it may it must, because it is too poor not to do it, put these bonds up with the Treasurer of the United States, and for the \$25,000 of bonds, which have cost over \$30,000, it may get \$22,500 of its own notes—not Government notes, but its own notes—which it may have the privilege of loaning to the community. That is an impoverishment to the community, substantially, of 30 per cent on capital it had before it started the bank.

#### LARGE BANKS "CARRY" SMALL BANKS.

Mr. HILL. Do you think, in your experience as a banker, not as Secretary of the Treasury, that as a matter of fact the large reserve banks of the country do frequently have to carry the smaller banks?

Secretary GAGE. They do to a considerable extent.

Mr. HILL. Do you think, then, they would object to this credit-note system, as giving to the country banks a first lien upon all their assets for these reserve notes and thus imperiling their claims against the country banks?

Secretary GAGE. I do not think they would object on that ground at all, because they always make sure they themselves have a good lien on assets before they take care of the country banks.

#### BANKS PROTECT THEIR CUSTOMERS.

The CHAIRMAN. Is it not a fact that the minute a bank is threatened all the business community rush to increase their discounts and loans and deposits, and that that is what intensifies the panics so much, plus the drawing out of deposits?

Mr. FAIRCHILD. You mean it tends to borrowing of more money?

The CHAIRMAN. Yes; they want to increase their loans and discounts.

Mr. FAIRCHILD. Yes; they do that.

The CHAIRMAN. Banks then say, "We can not increase your loans, but we will take care of you;" and saying that all over the country checks the panic. That is true, is it not?

Mr. FAIRCHILD. Yes.

#### BONDS KEPT UP IN PRICE.

Mr. FAIRCHILD. In getting up this plan the policy we pursued in the commission—

The CHAIRMAN. That is exactly what I want to get at.

Mr. FAIRCHILD (continuing). Was to propose something which we thought would be complete and useful and workable, if adopted by Congress. We considered two lines. First, whether we should attempt to frame something which we thought would meet the views of any particular Congress, looking to the make-up and the general views of Congress. And the other consideration was whether we should proceed solely without reference to that, but to get something that we believed would be beneficial if enacted, leaving out of view entirely the probabilities of its enactment. We concluded to adopt the latter course, believing it was not our province to take into consideration the temper and disposition of Congress, so we have proceeded not on the question of policy of passing a bill, but on the question of the general policy if a bill were passed.

Mr. WALKER. The changes proposed in any bill would be agreeable should it involve no practices or conditions that had not proven to be wise in the actual practice of banking, and correct those practices found to be unwise?

Mr. FAIRCHILD. Certainly; \* \* \* any one of these measures, or all of them combined, which will accomplish the general result is perfectly satisfactory to that commission. \* \* \*

Mr. SPALDING. In the event of the success of the monetary commission's plan, would it have any effect on the price of the bonds of the United States Government, in your opinion; and if so, why?

Mr. FAIRCHILD. We tried to graduate that. Getting at the amount held, and looking at the way bonds were held among the banks, we fixed the amount of 25 per cent of the capital in that way, with a view of having it have as little effect as possible on the rise or fall of bonds.

Mr. SPALDING. What effect, in your opinion, would there be in the adoption or the passing of a law in which the bonds were not used as a security for the circulating medium at all?

Mr. FAIRCHILD. Oh, it might affect their price a little. I doubt if it would affect it much now; perhaps 1, 2, or 3 per cent. I do not know about that.

Mr. WALKER. Your bill is of such a nature that you claim it would not very materially affect the price of bonds. If it had any tendency, it would make them higher, would it not?

Mr. FAIRCHILD. Possibly a little; but looking at the distribution of the bonds, we fixed the amount first at 30 per cent, and then reduced it to 25 per cent on that ground.

Mr. WALKER. Then the requirement to purchase bonds in order to get currency has a tendency to make bonds higher priced?

Mr. FAIRCHILD. That would be the tendency.

## INTERINDEBTEDNESS OF THE UNITED STATES.

Mr. WALKER. I will now ask a question on a different line. It is assumed that banks are not a help to the people because they increase their indebtedness; that is to say, we hear the proposition stated on the floor of the House and other places that indebtedness is an indication of poverty. I want you to look at this table [handing him a table]. I have taken great pains by correspondence and otherwise, and by my own estimates and estimates which I have obtained from others, and by the authorities given, to state the total sum of indebtedness.

*Table showing the indebtedness of the United States in 1892, prepared by Hon. J. H. Walker, chairman of Committee on Banking and Currency.*

Census of 1890, assessed valuation: Assets of the country, real and personal property .....	\$25, 000, 000, 000
Secretary of Treasury:	
Gold and silver coin .....	1, 200, 000, 000
Total .....	26, 200, 000, 000
National debt less cash in Treasury .....	852, 000, 000
Census of 1890:	
State debt less sinking fund .....	223, 000, 000
County debt less sinking fund .....	142, 000, 000
Town and city debt less sinking fund .....	470, 000, 000
Porter: School-district debt .....	38, 000, 000
Poor's Manual, railroad indebtedness:	
Funded debt .....	5, 106, 000, 000
Unfunded debt .....	376, 000, 000
Current debt .....	271, 000, 000
New York Financial Review, 1890: Miscellaneous stocks and bonds .....	582, 000, 000
Farm mortgages .....	1, 086, 000, 000
Home mortgages .....	1, 047, 000, 000
Other town and city property mortgages .....	3, 887, 000, 000
Estimated debts of merchants .....	5, 000, 000, 000
Debts of individuals and families .....	400, 000, 000
Comptroller of the Currency:	
Deposits in mutual savings banks .....	1, 402, 000, 000
Deposits in stock savings banks .....	252, 000, 000
Deposits in private savings banks .....	95, 000, 000
Deposits in loan and trust companies .....	353, 000, 000
National banks .....	1, 588, 000, 000
State banks .....	557, 000, 000
New York Daily Commercial Bulletin:	
Annual fire-insurance losses, \$125,000,000; life of policy, three years .....	375, 000, 000
Marine insurance .....	50, 000, 000
Life insurance in force .....	3, 543, 000, 000
Industrial business insurance .....	313, 000, 000
Benevolent associations and fraternal orders ....	6, 000, 000, 000
Interindebtedness in the country .....	34, 208, 000, 000

## INTERINDEBTEDNESS AN EVIDENCE OF INTEGRITY AND WEALTH.

Mr. WALKER. Is it not generally held by economists, Mr. Fairchild, that the interindebtedness of a people, at a low rate of interest, instead of being an evidence of poverty or of hard conditions, is one of the most certain indications known of the average integrity, education, wisdom, and wealth of its people?

Mr. FAIRCHILD. It is.

Mr. WALKER. As the integrity, education, wealth, and peaceful conditions are measured, the use of paper money proportionately increases, and that of coin decreases. Is not that true?

Mr. FAIRCHILD. Well, I would not like to say that quite so broadly. The use of paper is another advance in more perfect civilization and the economy of capital, in my judgment, and the greater the faith of people one in another, the higher the civilization will be; and all these conditions you have spoken of tend to produce that faith.

Mr. WALKER. Except for our war of disunion, we have had peace practically since the war of 1812—and that was not much of a war—while in France the Government has been constantly overturned, and a feeling of unrest has existed there; and England is in a state of war. They are engaging in some kind of a war nearly all the time, and you know what the conditions have been in Germany; while in Scotland, Canada, and this country there has been comparative peace. My question involves the fact of the people's condition. In view of all the facts, do not the paper money and assured peace go together?

Mr. FAIRCHILD. I should think they did.

*Transition from present system to the Hill-Fowler system and the Walker system.*

If all the national banks in the United States should transfer into the system provided for in the Hill-Fowler bill (H. R. 10289) or into the system provided for in the Walker bill (H. R. 10333), the results as to circulation would be as follows:

## HILL-FOWLER BILL.

(a) Cities of 10,000 population and over (25 per cent of paid-in capital, \$451,147,525).....	\$112, 786, 881
(b) Places under 10,000 population (25 per cent of paid-in capital, \$180,340,570).....	45, 085, 142
Total national reserve notes that would be issued.	<u>157, 872, 023</u>

## WALKER BILL.

In national banks alone:

(c) Cities of 10,000 population and over (12½ per cent of true capital—capital, surplus, and undivided profits—\$712,955,136) .....	89, 119, 392
(d) Places under 10,000 population (12½ per cent of the capital, \$253,284,959).....	31, 660, 620
Total "greenbacks" that would be exchanged ....	<u>120, 780, 012</u>
All State banks required to assume United States notes.	<u>47, 290, 873</u>
Total United States notes exchanged.....	<u>168, 070, 885</u>

Under the Hill-Fowler bill banks are required to buy and pay United States legal notes for purely a bank note to the amount of 25 per cent of their paid-in capital, and they get no right whatever to issue any notes other than those they buy.

Amount as above ..... \$157,872,023

Under the Walker bill national banks and commercial State banks are required to exchange lawful money for a new issue of "greenbacks," with their own note printed on the back of them, to the amount of 12½ per cent of their actual capital—total.....

168,070,885

And can issue currency against their assets to an equal amount.....

168,070,885

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Total currency under Walker bill..... 336,141,770

*Percentage to capital, surplus, and undivided profits of—*

	In central reserve cities.	In other reserve cities.	In cities of 10,000 popula- tion and over, not including reserve cities.	In places un- der 10,000 pop- ulation.	Total banks outside reserve cities.	Total esti- mated def- iciency of banks.
1. Individual deposits *	289.89	202.68	162.45	162.45	162.3	38.09
2. Cash reserve required .....	107.08	31.08	.....	.....	9.4	2.28
3. Bonds required under the Hill-Fowler bill .....	2.4	5.5	.....	.....	14.4	25
4. United States notes to be paid in under the Hill-Fowler bill .....	12.8	16.5	16.7	17.8	17.1	25
5. United States notes assumed under the Walker bill .....	12.5	12.5	12.5	12.5	12.5	12.5
6. Percentage of national reserve notes required to the percentage of cash reserve required under Hill-Fowler bill .....	11.95	53.0	.....	.....	182.6	1,096.4

\* Does not include deposits of banks in other banks.

*\$100,000-capital banks.*

Profit on currency under various bills.	On the 80 per cent of currency in circulation, 6 per cent.	Depletion of capi- tal in taking out the currency.
McCleary bill (H. R. 9725) .....	1.349	\$28,389.00
Hill-Fowler bill (H. R. 10289) .....	1.186	45,422.20
Under the commission bill (No. 5855) .....	1.775	26,333.89
Under the Gage bill (No. 5181) .....	0.504	80,000.00
Under the Fowler bill (No. 50) .....	1.738	100,000.00
Under the Walker bill (No. 3333) .....	5.153	.....
Under the existing law .....	Loss—0.642	100,000.00



## HILL-FOWLER BILL (H. R. 10289.)

*Profit on national-bank note circulation to banks with \$100,000 capital.*

Locality.	Class of bonds.	Cost of bonds, United States 4's of 1907, January 1, 1898, at 113.5635 (2½ per cent interest in vestment).	Maxi- mum cir- culation.	Loanable funds.	Receipts.			Expenditures.				Interest on \$100,000 capital.	Profit on circula- tion.	
					Interest on total loan- able funds, \$20,000, less \$5,000 redemption fund, \$5,000 guaranty fund.	Inter- est on bonds.	Gross receipts.	Tax, 6 per cent on one-fourth of 1 per cent on capital.	Ex- pense.	Sinking fund to liquidate premium paid on bonds.	Total.		Amount.	Per cent.
4 per cent .....	4's of 1907	\$45,422.20	\$100,000	\$154,577.80	\$4,983.11	\$1,600	\$6,583.11	\$1,450	\$82.50	\$416	\$1,928.50	\$4,000	\$654.61	0.655
6 per cent .....	4's of 1907	45,422.20	100,000	154,577.80	7,474.67	1,600	9,074.67	1,450	82.50	376	1,888.50	6,000	1,186.17	1.186
8 per cent .....	4's of 1907	45,422.20	100,000	154,577.80	9,966.22	1,600	11,566.22	1,450	82.50	331	1,843.50	8,000	1,722.72	1.723
10 per cent .....	4's of 1907	45,422.20	100,000	154,577.80	12,457.78	1,600	14,057.78	1,450	82.50	280	1,792.50	10,000	2,265.28	2.265

Table made at request of Mr. Walker, based upon details furnished by him (H. R. 10289).

MAY 20, 1898.

Jos. S. McCoy, Government Actuary.

## MCCLEARY BILL (H. R. 9725).

*Profit on national-bank note circulation to banks with \$100,000 capital.*

Locality.	Class of bonds.	Cost of bonds, United States 4's of 1907, January 1, 1898, at 113.5655 (2½ per cent investment).	Maxi- mum cir- culation.	Loanable funds.	Receipts.			Expenditures.				Interest on \$100,000 capital.	Profit on circula- tion.	
					Interest on total loan- able funds, less \$20,000 idle, \$5,000 redemption fund, \$5,000 guaranty fund.	Inter- est on bonds.	Gross receipts.	Tax, 2 per cent on \$20,000, 6 per cent on \$20,000, one-fourth of 1 per cent tax on capital.	Ex- pense.	Sinking fund to liquidate premium paid on bonds.	Total.		Amount.	Per cent.
4 per cent .....	4's of 1907	\$28,389	\$100,000	\$171,611	\$5,664.44	\$1,000	\$6,664.44	\$1,850	\$62.50	\$260	\$2,172.50	\$4,000	\$491.94	0.492
6 per cent . . .	4's of 1907	28,389	100,000	171,611	8,496.66	1,000	9,496.66	1,850	62.50	235	2,147.50	6,000	1,349.16	1.349
8 per cent .....	4's of 1907	28,389	100,000	171,611	11,928.88	1,000	12,928.88	1,850	62.50	207	2,119.50	8,000	2,209.38	2.209
10 per cent .....	4's of 1907	28,389	100,000	171,611	14,161.10	1,000	15,161.10	1,850	62.50	175	2,087.50	10,000	3,073.60	3.074

Above please find computations made in accordance with your instructions.

J. S. McCoy, Government Actuary.

MARCH 25, 1898.

*Figures of banking funds, copied from the Comptroller's report for 1897, and estimates of probable increase.*

[Report of Comptroller of Currency, 1897, Vol. I, pp. 385, 397, 444, 559.]

	Capital.	Capital, surplus, and profits.	Deposits.
National banks .....	\$631, 488, 095	\$966, 240, 096	\$1, 853, 349, 128
State banks .....	228, 677, 088	331, 036, 112	723, 640, 795
Add 12½ per cent of State banks failing to report .....	a 32, 668, 155	a 47, 290, 873	a 103, 377, 257
Total .....	892, 833, 338	1, 344, 567, 081	2, 680, 367, 180
Probable increase (25 per cent) .....	223, 208, 334	366, 141, 770	670, 091, 795
Total .....	1, 116, 041, 672	1, 680, 708, 851	3, 350, 458, 975

  

	Cash reserve required.	Cash reserve held.	Total reserve held.
National banks .....	\$287, 741, 796	\$388, 882, 631	\$695, 922, 126
State banks .....	a 112, 480, 000	152, 000, 000	a 268, 128, 000
Add 12½ per cent of State banks failing to report .....	a 17, 060, 000	a 19, 000, 000	a 33, 516, 000
Total .....	417, 281, 796	559, 882, 631	997, 566, 126
Probable increase (25 per cent) .....	a 104, 320, 449	a 139, 970, 658	a 249, 391, 531
Total .....	521, 602, 245	699, 853, 289	1, 246, 957, 657

a Estimated.

The items as to "reserves" being given for all the national banks in the United States, and using that of "cash reserve held" as a base for calculation of percentages, it is assumed that the ratio of difference for like items as to State banks not given in the official report bear proportionately the same relation to each other as for the national banks.

Table showing loss of banking funds in nine States under existing conditions in 1897 as compared with 1860.

TABLE A.—NINE STATES IN WHICH BANKING WAS FAIRLY WELL DEVELOPED IN 1860.

States.	1897 per capita.				1860 per capita.				Differ- ence in 1897.	Population, 1897.	Loss in amount of banking funds in 1897 at the per capita of 1860.
	Capital.	Deposits.	Currency.	Total.	Capital.	Deposits.	Currency.	Total.			
Alabama.....	\$2.00	\$3.65	\$0.63	\$6.28	\$5.08	\$5.03	\$7.75	\$17.86	\$11.58	1,675,000	\$18,396,500
Georgia.....	1.56	3.21	.43	5.20	15.78	4.48	8.32	28.58	23.38	2,090,000	48,864,200
Kentucky.....	4.63	6.54	1.72	12.89	11.10	4.90	11.70	27.70	14.81	1,887,000	27,946,470
Louisiana.....	.87	1.93	.24	3.04	34.60	27.93	16.35	78.88	75.84	992,000	75,233,280
Missouri.....	1.55	3.26	.42	5.23	7.68	2.84	6.67	17.19	11.96	2,427,000	29,026,920
North Carolina	1.52	3.00	.36	4.88	6.67	1.50	5.64	13.81	8.93	1,780,000	15,895,400
South Carolina	1.48	2.73	.35	4.56	21.26	5.92	16.31	43.49	38.93	1,280,000	49,830,400
Tennessee....	4.55	8.95	.80	14.30	7.27	3.89	4.99	16.15	1.85	1,924,000	3,559,400
Virginia.....	2.63	8.68	1.12	12.43	10.02	4.84	6.14	21.00	8.57	1,768,000	15,191,760
Total.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	15,823,000	283,944,330
Average loss in banking funds, per capita, in 1897 over 1860.....										\$17.94+	

TABLE B.

Assuming that the use of banking funds in 1897, that is to say, capital, deposits, and currency, would be one-quarter more in volume than in 1860, the slaves being free, the following sums should be added for each State named:

State.	Amount.	State.	Amount.
Alabama .....	\$7, 478, 875	South Carolina .....	\$13, 916, 160
Georgia .....	14, 933, 050	Tennessee.....	7, 767, 188
Kentucky .....	13, 067, 475	Virginia .....	9, 282, 000
Louisiana .....	4, 054, 304		
Missouri.....	10, 348, 819	Total .....	86, 992, 431
North Carolina .....	6, 144, 560		

TABLE C.

Assuming that the slaves being free to-day would add one-quarter to the use of banking funds, the amount of such funds that would be in use in the following nine States, providing that the freedom of issuing currency enjoyed by State banks in 1860 had continued until to-day, would probably be as follows:

State.	Population in 1897.	Actual loss in amount of banking funds in 1897, at the per capita of 1860.	Natural increase, with slaves free, should show one-quarter more.	Total.
Alabama .....	1, 675, 000	\$18, 396, 500	\$7, 478, 875	\$25, 872, 375
Georgia .....	2, 090, 000	48, 864, 200	14, 933, 050	63, 797, 250
Kentucky .....	1, 887, 000	27, 946, 470	13, 067, 475	41, 013, 945
Louisiana .....	992, 000	75, 233, 280	4, 054, 303	79, 287, 584
Missouri .....	2, 427, 000	29, 026, 920	10, 348, 819	39, 375, 739
North Carolina .....	1, 780, 000	15, 895, 400	6, 144, 560	22, 039, 960
South Carolina .....	1, 280, 000	49, 830, 400	13, 916, 160	63, 746, 560
Tennessee .....	1, 924, 000	3, 559, 400	7, 767, 188	11, 326, 588
Virginia.....	1, 768, 000	15, 191, 760	9, 282, 000	24, 473, 760
Total.....	15, 823, 000	283, 944, 330	86, 992, 431	370, 933, 761

TABLE D.—ESTIMATED DEFICIENCY OF BANKING FUNDS IN THE FOLLOWING STATES IN 1897 AS COMPARED WITH 1860.

[Capital and deposits of State banks—see Comp. Currency, 1897, vol 1, p. 578.]

States.	Estimated capital.	Capital of State banks.	Estimated deposits.	Deposits of State banks.	Estimated currency.
Alabama.....	\$10,866,397	\$1,022,360	\$4,139,580	\$951,609	\$10,866,397
Georgia.....	26,844,845	5,150,612	10,107,560	6,389,932	26,844,845
Kentucky.....	17,225,857	22,402,014	6,562,231	25,008,521	17,225,857
Louisiana.....	33,300,785	703,336	12,686,013	994,149	33,300,785
Missouri.....	16,537,810	15,452,036	6,300,918	31,833,369	16,537,810
North Carolina.....	9,256,783	2,541,582	3,526,393	3,412,841	9,256,783
South Carolina.....	26,773,555	1,166,995	10,199,449	1,251,674	26,773,555
Tennessee.....	4,757,167	3,107,490	1,812,254	5,211,765	4,757,167
Virginia.....	10,278,979	8,379,932	3,915,801	15,078,803	10,278,979
Total.....	155,842,178	60,926,357	59,250,199	90,132,663	155,842,178

## SUMMARY.

Estimated capital.....	\$155,842,178
State bank capital.....	60,926,357
Estimated currency.....	\$94,915,821
	155,842,178
State bank deposits.....	250,767,999
Estimated deposits.....	90,132,663
	59,250,199
Estimated net loss of banking funds in the nine States.....	30,882,464
	219,875,535

*Fifteen States in which banking was undeveloped in 1860, and in which the deficiency in banking funds per capita was probably as large in 1897 as in the nine States above noted.*

States.	Population, 1897.	States.	Population, 1897.
Arkansas.....	1, 360, 000	Nevada .....	45, 000
California .....	1, 155, 000	South Dakota .....	387, 000
Colorado .....	517, 000	Texas.....	2, 698, 000
Florida.....	496, 000	Utah .....	272, 000
Idaho .....	151, 000	Washington.....	468, 000
Kansas .....	1, 342, 000	Wyoming .....	86, 000
Mississippi .....	1, 444, 000		
Montana .....	225, 000	Total population .	11, 791, 000
Nebraska .....	1, 145, 000		

Estimated deficiency in banking funds in these fifteen

States, as shown to be in the nine States, in 1897 .... \$211, 530, 540

Deficiency in nine States above ..... 283, 944, 330

Total deficiency in 24 States ..... 495, 474, 870

*Number and value of slaves in 1860 (average value estimated at \$500 per head) in the nine States following.*

State.	Number of slaves in 1860.	Value at \$500 per head.	Assessed value of personal property in 1860. <sup>1</sup>	Assessed value of personal property in 1890. <sup>2</sup>
Alabama .....	435, 080	\$217, 540, 000	\$277, 164, 673	\$104, 273, 091
Georgia .....	111, 115	55, 557, 500	438, 430, 946	190, 774, 030
Kentucky .....	225, 483	112, 741, 500	250, 287, 639	170, 807, 996
Louisiana .....	331, 726	165, 863, 000	155, 082, 277	74, 700, 905
Missouri .....	114, 931	57, 465, 500	113, 485, 274	288, 116, 597
North Carolina...	331, 059	165, 529, 500	175, 931, 029	93, 231, 742
South Carolina...	402, 406	201, 203, 000	359, 546, 444	78, 219, 946
Tennessee .....	275, 719	137, 859, 500	162, 504, 020	89, 887, 380
Virginia .....	490, 865	245, 432, 500	239, 069, 108	208, 700, 236
Total.....	2, 718, 384	1, 359, 192, 000	2, 171, 501, 410	1, 298, 711, 923

<sup>1</sup> Census 1860, p. 294, Mortality and Miscellaneous Statistics.

<sup>2</sup> Census 1890, part 2, Wealth, Debt, and Taxation, p. 102.

Personal property per capita in 1860, deducting value of slaves. \$85. 78  
 Personal property per capita in 1890, slaves free ..... 85. 44

Population in 1860, 9,469,634. Population in 1890, 15,199,370.

Total capital, surplus, and undivided profits in places under 10,000 population .....	\$253, 284, 959
Circulation .....	70, 427, 647
Deposits .....	411, 476, 864

Total banking funds .....	735, 189, 470
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Capital actually paid in .....	180, 340, 570
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Population in places under 10,000 .....	41, 840, 776
Deduct people served by banks in cities of 10,000 popu- lation or more .....	10, 390, 737

	31, 450, 039
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National banking funds per capita, to serve people living in places of less than 10,000 population, \$23.38.

Total capital surplus and undivided profits in cities of 10,000 population or more .....	\$712, 955, 136
Circulation .....	128, 493, 023
Deposits .....	1, 441, 872, 264

Total national banking funds .....	2, 283, 320, 423
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Capital actually paid in in cities of 10,000 population or more .....	451, 147, 525
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Population in cities of 10,000 and over .....	20, 781, 474
One-half as many again served by banks in above cities .....	10, 390, 737

Probable population served by such banks .....	31, 172, 211
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Banking funds per capita for cities of 10,000 inhabitants or over, \$73.25.

## CLEARING HOUSE OF WORCESTER, MASS.

### CONSTITUTION.

The banks in the city of Worcester, having associated on March 5, 1861, for the purpose of effecting a more perfect and satisfactory settlement of the daily balances between them, deeming it advisable to adopt a more permanent and formal organization, hereby agree upon the following

### ARTICLES OF ASSOCIATION.

SECTION 1. The name of the association shall be the Worcester Clearing House.

SEC. 2. The objects of the association are the effecting, at one place and one time, of the daily exchanges between the several associated banks, and the payment, at the same time and place, of the balances resulting from such exchanges; the promotion of a general uniformity



of action among the banks; and the cultivation of honorable and friendly relations among the members.

SEC. 3. Each bank belonging to the association may be represented by its president and cashier, both of whom shall be entitled to vote, as the members of the association, at all meetings thereof.

SEC. 4. The annual meeting shall be held at the clearing house on the second Monday in October, in each year, when a chairman and secretary shall be chosen, by ballot, who shall hold their offices for one year, and until others are chosen in their stead; and whenever, at any meeting, either of them shall be absent, a chairman or secretary pro tempore shall be chosen.

SEC. 5. At every annual meeting there shall also be chosen, by ballot, a standing committee of three (not more than one member of the committee from any one bank), to be called the clearing house committee, who shall hold their offices for one year, and until others are chosen in their stead, whose duty it shall be to procure suitable accommodations for the clearing; to provide proper books, stationery, and whatever else may be necessary for the convenient transaction of the business; to ascertain and advise the banks as to their duties and liabilities in case of any doubtful construction of the State or United States laws relating to banks and banking; to investigate and report to the association upon any matters affecting the banking interests, and, generally, to supervise the whole business and interests of the association. Any vacancies which may occur in the committee during the year may be filled at any meeting of the association.

SEC. 6. The cashier of the clearing bank shall be the manager of the clearing, and the settling clerks shall be under his direction while at the clearing house. The hour for making the exchanges shall be at 12 o'clock m. Errors in the exchanges and claims arising from the returns of checks or other cause, are to be adjusted directly between the banks which are parties therein and not through the clearing house.

SEC. 7. Each bank belonging to the association shall deposit with the clearing house committee its proportion of a clearing fund. The proportionate deposit of each bank shall be decided by vote of the association. The clearing fund shall be deposited with the clearing bank, free of interest, as a compensation for services rendered, and for the payment of all necessary expenditures of the association. On making its deposit each bank shall receive a certificate therefor, signed by the clearing house committee and countersigned by the manager. No bank shall make the clearings of a bank which is not a member of the association.

SEC. 8. No new bank shall be admitted to the association excepting on the recommendation of the clearing-house committee and by a vote of three-fourths of the members; and no bank shall withdraw without giving six months' notice of such intention to the manager of the clearing house.

SEC. 9. For cause deemed sufficient by the associated banks, at any meeting thereof, any bank may be expelled from the association and debarred from all the privileges of the clearing house by a vote of three-fourths of the members.

SEC. 10. These articles of association shall be signed by the members thereof and by new members hereafter admitted; they may be amended by a vote of two-thirds of the members at any meeting of the association, provided that notice of the proposed amendment shall have been given in writing at a previous meeting and lodged with the secretary.

SEC. 11. The secretary shall notify all meetings by giving notice

in writing to each of the associated banks; and he shall convene the association whenever requested to do so by any member.

NOTE.—Population, 115,000; capital of clearing house, \$10,500; banks of \$250,000 capital or less loan the clearing house \$1,000; those having over \$250,000 capital loan the clearing house \$1,500 free of interest.

## H. R. 10339.—FIFTY-FIFTH CONGRESS, SECOND SESSION.

### IN THE HOUSE OF REPRESENTATIVES,

**MAY 16, 1898.**—*Mr. Walker, of Massachusetts, introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.*

**A BILL** To so change the national-bank act as to secure to the people in all sections of the country an equal opportunity to freely use paper money.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That hereafter banking associations shall not be required, "preliminary to the commencing of the banking business," or in continuance thereof, to "transfer and deliver to the Treasurer of the United States," or as security for circulating notes, any United States bonds; and any national banking association that has transferred and delivered such bonds to the Treasurer may recover such bonds from the Treasurer upon complying with the conditions prescribed for the reassignment of such bonds to associations in liquidation; and the Treasurer of the United States is hereby authorized and directed to reassign and deliver such bonds to the association from which he received them upon being notified by the Comptroller of the Currency that such association is in compliance with this section of this Act.

**SEC. 2.** That any banking association organized under the laws of any State that shall place on deposit in any banking association in the largest commercial city in the State in which the association is located, or in any other place acceptable to the Comptroller of the Currency, an amount of specie equal to five per centum of its circulating notes that it averages to have in actual circulation for the redemption on demand of such notes, and shall also have in its own vaults, in addition to the amount hereinbefore mentioned, an amount of specie equal to five per centum of its average individual deposits, thereupon the imposition and the collection of the ten per centum tax on the circulating notes of banking associations organized under the laws of any State shall be suspended, so far as they relate to such banking association: *Provided, however,* That in case such banking association fails to keep good, as averaged for any month, any part of the total amount of specie as is herein required it shall be liable to and shall pay into the Treasury of the United States a tax equal to ten per centum per annum on an amount equal to the amount of the average deficit in such fund or funds for such month.

**SEC. 3.** That whenever any association fails to pay on demand in specie the circulating notes signed by its officers and paid out by it, it shall be subject to and shall pay a duty at the rate of two per centum per annum, one-half on July first and one-half on October first, on a sum equal to the average amount of its circulating notes outstanding and of the individual deposits in such association during such failure

and until such payment is resumed: *Provided, however*, That in case any such association pays one-half of the tax herein imposed on or before the day it is due and payable, the other half shall be, and is hereby, remitted.

SEC. 4. That each association shall keep such records and send to the Comptroller of the Currency such reports and submit to such examinations by any agent of the Comptroller, to ascertain whether the association is in compliance with law and the amount of tax due and payable by it, as the Comptroller of the Currency shall from time to time direct, and the expenses of such examination shall be paid by such association.

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## H. R. 10333.—FIFTY-FIFTH CONGRESS, SECOND SESSION.

### IN THE HOUSE OF REPRESENTATIVES.

MAY 13, 1898.—*Mr. Walker, of Massachusetts, introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.*

A BILL To so change the national-bank Act as to secure to the people in all sections of the country an equal opportunity to freely use paper money.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That hereafter banking associations shall not be required, "preliminary to the commencing of the banking business," or in continuance thereof, to "transfer and deliver to the Treasurer of the United States," or as security for circulating notes, any United States bonds; and any national banking association that has transferred and delivered such bonds to the Treasurer, upon depositing lawful money, in compliance with section two of this Act, may recover such bonds from the Treasurer upon complying with the conditions prescribed for the reassignment of such bonds to associations in liquidation; and the Treasurer of the United States is hereby authorized and directed to reassign and deliver such bonds to the association from which he received them upon being notified by the Comptroller of the Currency that such association is in compliance with section two of this Act; and in place of United States bonds, as heretofore required, banking associations shall deposit lawful money in amount sufficient to take out the United States legal-tender circulating notes described in section two; and the taking out of such notes is hereby required of such associations preliminary to the commencing of the banking business.

In places of less than four thousand inhabitants, with the permission of the Comptroller of the Currency, banking associations may be organized with a paid-up capital of not less than twenty-five thousand dollars.

The word capital as used in this Act shall be held to mean the sum of the nominal capital plus the surplus and undivided profits of associations, and as shown by the last published annual report of the Comptroller of the Currency when such items concerning the bank in question are published in such report.

SEC. 2. That upon the delivery of coin, coin certificates, or United States legal-tender notes, including Treasury notes, to the Treasurer of the United States in sums of one hundred dollars or any multiple thereof, and in amount equal as near as may be to twelve and one-half

per centum of its capital, thereupon it shall be entitled to receive from the Comptroller of the Currency United States legal-tender notes of different denominations, having printed on their reverse side the circulating note of the association, in blank, registered and countersigned as provided by law, equal in amount to the coin, coin certificates, and United States legal-tender notes, including Treasury notes, delivered; and any association may at any time increase such delivery of such moneys to an amount equal to one-half of its capital, and receive such circulating notes thereon to the amount of such delivery of such money.

The promise of the association receiving and issuing such notes to pay the same on demand shall be attested by the signature of the president or vice-president and cashier or assistant cashier before being issued by it.

The Secretary of the Treasury is hereby authorized to issue United States legal-tender notes of the Act of March third, eighteen hundred and sixty-three, to the amount necessary to carry into effect the provisions of this Act.

The lawful name and description of the notes issued under this section shall be greenbacks.

SEC. 3. That the Comptroller of the Currency shall issue, in blank, circulating notes of different denominations, to any association, and the association may issue the same in addition to the greenbacks described in the preceding section equal in amount to the amount of the greenbacks taken out by it until the setting aside of the gold in the Treasury of the United States to redeem certain legal-tender notes as described in the section next succeeding. Thereafter he shall issue to any association, and the association may retain and issue, the notes described in this section at his discretion, but not less in amount than the amount of the greenbacks taken out by such association, and not less in amount than twenty-five per centum in excess of the amount upon which a tax was assessed and paid in the two years next preceding, and not to exceed in amount the amount of its unimpaired capital. Each association taking out the notes described in this section shall add to its current redemption fund and keep therein a sum in lawful money equal in amount to five per centum of such notes it averages to keep in circulation as found from time to time; such five per centum, together with the five per centum mentioned in the next section, shall be held for the redemption of its greenbacks and notes issued to it under this section.

That the lawful name and description of notes issued under this section shall be currency.\* All currency shall have printed on its reverse

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\* Net assets of national and State banks, in capital, surplus, and undivided profits..... \$1, 350, 000, 000  
All kinds of paper money in circulation..... 1, 095, 377, 992

Profits to bank on currency under existing law and conditions, about one-fourth of 1 per cent.

As all taxes except one-fifth of 1 per cent, safety fund tax, are removed, the average profit, taking the country over, under this bill, on the currency kept out, would be about 6 per cent. Nothing is gained on the greenbacks and 6 per cent on the reserve notes.

The currency issued is not "reserve certificates." It is in no sense "issued against the reserve held." They hold exactly the same relation to the "reserve held" as any other liability of the banks. For each \$95 of old issue of greenbacks that are redeemed and destroyed, \$100 of new greenbacks are issued and \$100 of currency, making \$200 of currency for each \$95 retired.

side the statement that it is to be finally redeemed and paid by the Treasurer of the United States. The Comptroller of the Currency may cause a supply of currency and of greenbacks to be printed for associations in anticipation of immediate delivery to them.

SEC. 4. That the Treasurer of the United States shall forthwith redeem and destroy existing United States legal-tender notes issued under Acts passed before July first, eighteen hundred and ninety, and put in circulation previous to the passage of this Act, in such manner as he may deem proper, equal in amount to ninety-five per centum of the aggregate of the coin, coin certificates, and United States legal-tender notes, including Treasury notes, received for greenbacks issued to banking associations; and the Treasurer shall set aside five per centum of such aggregate, which, together with the five per centum mentioned in the previous section, shall be held for the current redemption of the greenbacks and currency of the association making such deposit.

When there shall be no more in amount of United States legal-tender notes outstanding issued before July first, eighteen hundred and ninety, than the amount of the gold then held by the Treasurer that may be used for the redemption of such notes, the gold so held shall then be set aside by the Treasurer of the United States and used only to redeem such notes, which notes upon being so redeemed shall be destroyed;\* and from and after thirty days from the setting aside of gold herein mentioned such notes shall not be used by any banking association in redeeming its notes, or be counted in the reserve fund of any national banking association, or be a legal tender for any debt due and payable in the United States excepting for duties due and payable on goods imported into the United States.†

That upon the setting aside of the gold herein directed, a sum of money equal in amount to all moneys subsequently paid into the Treasury of the United States in exchange for greenbacks shall be held in the Treasury as a separate fund, out of which the Treasurer shall, from time to time, redeem greenbacks held by certain associations in amount and manner as follows, to wit:

When such funds shall amount to one per centum of the total amount of greenbacks taken out under this Act by associations before the set-

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*Outstanding United States legal-tender notes . . . . .	\$346, 000, 000
Gold redemption fund in Treasury in February, 1896 . . . . .	146, 000, 000

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Total legal-tender notes to be assumed by banks . . . . . 200,000,000

to relieve the situation. Thus, when the banks have assumed the current redemption of only \$200,000,000 of legal-tender notes, the Treasury will be wholly relieved from paying gold on any form of paper money, and it will be a matter of as much indifference what the Government pays out as in the case of any private citizen.

Visible gold on January 1, 1899:

In United States Treasury . . . . .	\$246, 973, 000
In national banks . . . . .	266, 464, 000
In State banks, trust companies, etc. (estimated) . . . . .	266, 000, 000

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Total commercial gold . . . . . 779, 437, 000

†This provision is designed to bring legal-tender notes into the Treasury for redemption.

ting aside of gold and then held by them, or oftener, he shall call in, redeem, and cancel such greenbacks so held that are in excess of the total amount of such notes issued to banking associations and held by them, previous to the setting aside of gold, and in amounts of one hundred dollars or any multiple thereof. He shall first reduce the amount of such greenbacks to those associations which hold the largest amount of greenbacks in proportion to their capital, if requested by them so to do, and until the holdings of such greenbacks by all associations have been reduced to the sum required to be taken out by them; and he may require any association to increase its holdings of greenbacks in sums of one hundred dollars or any multiple thereof when the increase of its capital makes its holdings of greenbacks less in percentage than is required by this Act. Thereafter the taking out and the holdings of greenbacks by any association shall be reduced so as to keep the total amount of greenbacks held by the aggregate of all associations as near as may be at the aggregate amount of greenbacks so held by all associations at the time of the setting aside of gold herein mentioned.

Two years from the day of the setting aside of the gold in the Treasury to redeem certain legal-tender notes any gold so set aside then remaining shall be free money in the Treasury.

SEC. 5. That upon the expiration of the corporate term of any association, if its corporate existence is not extended by the Comptroller of the Currency, or upon the insolvency of an association, or by the order or with the consent of the Comptroller, approved by the Secretary of the Treasury, the Treasurer shall redeem the greenbacks issued to the association, out of any moneys in the Treasury not otherwise appropriated.

Any association may reduce its currency by surrendering it for destruction to the Comptroller of the Currency, who shall destroy the currency so surrendered in the manner prescribed by law. The liability of any association for its currency shall neither be canceled nor reduced in any other manner.

SEC. 6. That each association shall keep good with the Treasurer of the United States and he shall at all times keep and have on deposit in the Treasury of the United States, in lawful money, except as hereinafter provided, for the current redemption fund of each association during its solvency, a sum equal to the five per centum before mentioned of the greenbacks and average outstanding currency of the association, to be held and used for the current redemption of its greenbacks and currency; and no part of such redemption fund shall be counted as a part of the reserve of any bank; and when the notes of any association, assorted or unassorted, shall be presented for such redemption to the Treasurer of the United States, in sums of five hundred dollars, or any multiple thereof, or in sums equaling not less than one per centum of the total circulation of any association having less than fifty thousand dollars in greenbacks and currency, the same shall be redeemed.

Each association shall redeem in lawful money its greenbacks and currency at its own banking house and at an agency approved by the Comptroller in some reserve city.

The right to confer the duties and responsibilities of executing the provisions of this Act, or any part thereof, relating to the current redemption fund or the redemption of greenbacks and currency upon any reserve bank or other suitable agent, under such regulations as he may deem safe and proper, and to deposit any part of the current redemption fund or funds in any place he may deem proper, with the approval of the Secretary of the Treasury, is hereby conferred upon the Treasurer of the United States.

**SEC. 7.** That from and after thirty days from the setting aside of gold by the Treasurer of the United States to redeem and cancel certain legal-tender notes as aforesaid the cash reserve required by law to be kept by banking associations shall be kept as near as may be in equal parts in greenbacks of other associations in silver coin and in gold coin of the United States.

Each banking association may keep its coin and its bonds in such place and under such circumstances as the Comptroller of the Currency may approve, but the gold coin required to be kept in the cash reserve by each association shall be kept in a clearing house organized under this act.

Any association that fails to so keep, use, and pay out its silver coin, gold coin, greenbacks, and currency as to keep each one and all four kinds of money at a parity each with all the others from and after the setting aside of gold herein mentioned shall be deemed to have failed to pay on demand in coin or in United States legal-tender notes issued to other associations its greenbacks and currency.

No association shall plead in defense, in any action brought against it, that any greenback or currency note signed by its officers and paid out by it is a United States legal-tender note.

**SEC. 8.** That hereafter no certificates shall be issued or reissued by the Treasury of the United States upon the deposit of gold coin, silver coin, or any other money, and that all existing coin certificates and money certificates shall be canceled and destroyed upon being received into the Treasury, and the coin or money remaining upon which they were issued shall be free coin or money in the Treasury; and no circulating note authorized under existing law shall be issued or reissued to any banking association of a less denomination than three dollars,\* and all such notes of less denomination than three dollars hereafter received for redemption shall be canceled when received in the Treasury, and like notes in blank of a larger denomination shall be returned in place of them; and no United States legal-tender notes, including Treasury notes, of a less denomination than three dollars shall be hereafter issued or reissued, but those of a larger denomination shall be issued or reissued in place of them.

**SEC. 9.** That there is hereby constituted and appointed a board of advisers to the Comptroller of the Currency, consisting of seven experts, to consult and advise with the Comptroller upon methods of executing existing law concerning banking, and changes desirable therein, over which board the Comptroller of the Currency shall preside.

The president of the chief reserve bank in San Francisco, New Orleans, and each of the other five chief reserve cities in the country, or such substitute as any one of them shall from time to time appoint, shall be a member of the board of advisers, which board shall meet once a year, or oftener if the Comptroller of the Currency or a majority of the board so determines, and at such time and place as the Comptroller shall appoint.

The recommendations of the board of advisers, or a synopsis thereof, and all votes, shall be entered in the records of the board. The decision of the Secretary of the Treasury from time to time as to what

\* Treasury report, February 28, 1898:

\$1 notes in circulation.....	\$107, 730, 205
\$2 notes in circulation.....	31, 144, 000
Total outstanding notes under \$5.....	138, 874, 205
\$5 notes in circulation.....	273, 971, 710

person or persons are entitled to act as members of the board of advisers shall be final.

Any association aggrieved by any action taken in its case by the Comptroller of the Currency may appeal to the board of expert advisers, and the decision of such board in such case by a yea and nay vote if no member votes in the negative, or when approved by the Secretary of the Treasury, shall be final.

SEC. 10. That any five or more national banking associations are hereby authorized to unite in forming a clearing-house association. By adopting a constitution and by-laws not inconsistent with the provisions of this Act, the banking associations uniting to do so and certifying to the Comptroller of the Currency that fact shall in that act become a clearing-house association body corporate, upon such constitution and by-laws being approved in writing by the Comptroller of the Currency.

An incorporated banking association may be admitted to membership in any clearing-house association incorporated under this Act; and the membership of any banking association of such clearing-house association may be terminated by any action of the clearing-house association approved by the Comptroller of the Currency.

Any banking association may withdraw from any clearing-house association and any clearing-house association may withdraw from the national clearing-house association upon such conditions as the Comptroller of the Treasury may approve.

Each member of such clearing-house association shall share in its fees and other income, and in its assessments, expenses, and losses in the proportion that the amount of its capital bears to the total amount of all the capital of all the associations composing the clearing-house association and as shown by the annual report of the Comptroller of the Currency last made previous to the apportionment of the same, when the items of its capital are given in such report.

Each clearing-house association may make sales or loans to or buy or borrow from other clearing-house associations, and banking associations may make sales or loans to or buy or borrow from clearing-house associations. In all such buying, selling, loaning and borrowing clearing-house and banking associations shall be exempt from the usury laws of the States in which they are located.

Any clearing-house association organized under this Act may establish a department for the clearing of the greenbacks and currency of banking associations in the current redemption thereof.

Any changes in the constitution or by-laws of any clearing-house association, to become valid, must be consistent with this Act and must be approved in writing by the Comptroller of the Currency, and the Comptroller may annul any part of the same at any time after a hearing thereon, with the concurrence of a majority of the board of advisers.

Five or more clearing-house associations organized under this Act may form a national clearing-house association and any clearing house organized under this Act may be admitted to and remain a member of the national clearing-house association upon the same terms and conditions as those governing in the case of associations constituting clearing-house associations composed of banking associations, and the persons who constitute the board of advisers to the Comptroller of the Currency provided for in section nine of this Act, shall constitute the board of directors of the national clearing-house association: *Provided, however,* That national clearing-house associations may make sales or loans to and may buy or borrow from clearing-house associations and may buy and sell such bonds as are necessary or desirable to the conduct of its



legitimate business to any amount and of any kind approved of by the Comptroller of the Currency, and may provide for the coin redemption of circulating notes of banking associations, and may take and issue, under the provisions of this Act, the greenbacks described in this Act, but in denominations of not less than one thousand dollars.\*

Any clearing-house association organized under this Act may be designated by the Secretary of the Treasury as a depository of public moneys, and may also be employed as a financial agent of the Government.

Any clearing-house or banking association organized under this Act may, with the approval of the Secretary of the Treasury, deliver to the Treasurer of the United States or to any assistant treasurer of the United States, for safe-keeping, any kind of money or bonds, and receive such a statement of the fact of their being in the Treasury of the United States as the Secretary of the Treasury may approve.

Clearing-house associations shall be subject to like examination by national-bank examiners as national-banking associations, and shall make such reports to the Comptroller of the Currency as he may request.

The meeting together of any persons who are officers, agents, or employees of any five or more associations in any one or more places once in ten days or oftener for the purpose of exchanging, paying, or in any other way satisfying any obligations used in commerce among the several States by any two or more of such associations, shall constitute such associations represented in such meeting a clearing-house association for the purpose of the taxation herein imposed, and such associations represented shall be jointly and severally liable to pay, and shall pay, into the Treasury of the United States a tax in amount equal to one-fiftieth of one per centum on the aggregate amount of all such exchanging, paying, or in any way satisfying such obligations, at each and every meeting of persons acting for such associations: *Provided, however*, That in case any such association pays one-half of the tax herein imposed on or before the day it is due and payable, the other half shall be, and is hereby, remitted: *And provided further*, That the tax herein imposed on associations herein described shall be wholly remitted to each one and all associations that are members of clearing houses incorporated under this Act.

SEC. 11. That the Comptroller of the Currency may issue to the National Clearing-House Association or other clearing-house association organized under this Act, or to any national-banking association, greenbacks to any amount approved of in writing by the Secretary of the Treasury, in addition to the amount of greenbacks hereinbefore

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\* The financial and banking system of the United States, as of every other nation, must be built from the top down, having a great national bank with myriads of branches, as are those of Europe, like European governments, or it must be built from the bottom up. The independent individual bank, while retaining its independence, will be united with all other banks to form a democratic but strong and symmetrical system, as our institutions are built up from the individual. There is no escape from it. This section accomplishes that purpose. It makes a solid union of all the banks in the country into practically one bank, with all the advantages of a United States national bank, with 8,000 branches, now State and national, leaving each bank as free as now and with none of the disadvantages of a United States national bank. It also gives to every country bank all the assistance and support it could receive were it a branch of a United States national bank.

authorized: *Provided*, That the association applying for such additional greenbacks shall deliver to the Treasurer of the United States or to any assistant treasurer bonds\* in kind and amount acceptable to the Secretary of the Treasury, as security for such greenbacks, and shall pay interest on the amount of such greenbacks so issued at the rate of six per cent per annum, such interest on such greenbacks to be paid at such time and in such manner as the Comptroller of the Currency may determine; but no more in amount than ninety per cent of the par value of any bond shall be issued in such greenbacks, and no bonds other than bonds of the United States shall be accepted by the Secretary of the Treasury as security when there are three hundred millions or more of United States bonds outstanding.

Any association depositing bonds and receiving greenbacks secured thereby may withdraw such bonds so deposited, after thirty days from the date of such deposit, upon paying the accumulated interest on the amount of greenbacks issued upon the deposits of such bonds and up to the date of their withdrawal, and in addition to such interest shall deposit with the Treasurer greenbacks or other lawful money to an amount equal to the greenbacks issued to the association as security for which the bonds were deposited; but no more than five per centum of the greenbacks issued to any association other than the one receiving such greenbacks shall be accepted as a deposit for the withdrawal of such bonds.

The money so deposited for the withdrawal of such bonds shall be immediately put in redemption, and the money received for it shall be kept as a special fund with which to redeem the amount of greenbacks issued to the association; and such greenbacks shall be redeemed, and when redeemed shall be destroyed to an amount equal to the greenbacks issued to the association for the security of which the bonds hereinbefore mentioned were deposited.

The Secretary of the Treasury shall publish once in seven days, or oftener, in the "Statement of the condition of the United States Treasury and the receipts and expenditures," a list of the securities and the amount of each kind accepted by him to secure greenbacks issued or proposed to be issued upon the deposit of bonds, or of bonds to secure any deposits of money made in any association.

SEC. 12. That in order to enable the Secretary of the Treasury to carry into effect the provisions of the Act of January fourteenth, eighteen hundred and seventy-five, entitled "An Act to provide for the resumption of specie payments," and of this Act, the Secretary of the Treasury is hereby authorized to issue and sell from time to time, for the period of four years, bonds as described in the Act of July fourteenth, eighteen hundred and seventy, entitled "An Act to authorize the refunding of the national debt," such bonds to be payable at the pleasure of the United States after one year from the date of their issue and upon the

* United States bonds in national banks to secure circulation.....	\$227, 484, 000
Other United States bonds in national banks.....	\$17, 576, 925
Other bonds held by national banks (estimated).....	125, 000, 000
Total bonds held in 1895.....	142, 576, 950
The total securities, aside from United States bonds, held by national banks, most of which are bonds.....	148, 569, 950

expiration of three years, or bonds payable after three years and upon the expiration of seven years, or bonds due on a certain day within three years from the date of such bonds, as the Secretary of the Treasury may elect, such bonds to bear interest at a rate not exceeding three per centum per annum.

SEC. 13. That when the amount of the daily total reserve held by any national banking association averages to be less for any month than the amount required, it shall pay into the Treasury of the United States a tax at the rate of six per centum per annum on the amount of the average deficiency for that month in such reserve.

Whenever any association fails to pay on demand in silver or gold coin or in United States legal-tender notes issued to other associations the greenbacks and currency signed by its officers and paid out by it, it shall be subject to and shall pay an additional tax, at the rate of one per centum per annum, on a sum equal to the average amount of the individual deposits in such association during such failure and until such payment is resumed: *Provided*, That in case any association pays one-half the tax herein imposed on or before the day it is due and payable the other half shall be and is hereby remitted. And whenever it shall appear to the satisfaction of the Comptroller of the Currency that any one of the four kinds of money, namely, currency, greenbacks, silver coin, or gold coin, of the United States is at a premium in any one of the central reserve cities in any other one or more of the other kinds of money herein named, it shall thereupon become his duty to declare and publish the same in the "Statement of the Condition of the United States Treasury and its Receipts and Expenditures," and such publication shall be held to be conclusive evidence that all the associations of deposit, loan, and discount as herein described in the United States have failed to pay on demand in silver or gold coin of the United States their greenbacks and currency, and the tax herein imposed for such failure shall be due and payable from each of such associations from and after the day the notice of such failure is published by the Comptroller of the Currency in the "Statement of the Condition of the United States Treasury and its Receipts and Expenditures," and so long as such failure continues, and until the day the Comptroller of the Currency gives notice in like manner that such failure no longer continues.

In addition to all other taxes imposed in this Act, each association organized under it shall pay into the Treasury of the United States a tax in each year, as the Secretary of the Treasury shall from time to time prescribe, equivalent to not less than one-fifth nor more than one per centum per annum\* on the average amount of currency issued to it

\* Four-fifths of the present paper-money circulation would be \$800,000,000; one-half of 1 per cent per annum on the currency would yield \$4,000,000 per annum. The losses on the circulation to the United States Treasury on notes of insolvent banks, as shown by thirty-two years' experience under the existing banking laws, were not \$16,000,000 during the whole thirty-two years of the existence of the national banking system, about \$500,000 per annum, had the national banks issued their notes under the provisions of this bill. The Government estimate for the bills lost and worn out past redemption, and to the advantage of the United States Treasury, is two-fifths of 1 per cent per annum on all circulation. Excluding the \$1 and \$2 bills, the loss might not be more than one-half, and the gain to the United States at one-fifth of 1 per cent on the \$800,000,000 would be \$1,600,000.

For the last five years the 1 per cent tax now collected on circulation has averaged \$1,582,443. The banks are now in effect carrying without

and in circulation and for the purpose of covering any loss which the Treasury may otherwise sustain by reason of the insolvency of any association to which currency was issued under this Act: *Provided, however*, That such tax shall not be levied to exceed one-fifth of one per centum per annum at a time when the total amount of all moneys paid into the Treasury under the tax imposed in this clause exceeds by eight million dollars the total net amount paid out of the Treasury in redemption of the currency of insolvent associations in cases where the assets of such associations were not sufficient to pay such notes or sufficient to recoup the Treasurer of the United States for the payment by him of such notes.

A tax equal in amount to one-fifth of one per centum per annum is hereby imposed on the average amount of the individual deposits subject to payment by check or draft or like instrument, whether payable on demand or at some future time, that are in each incorporated banking association, trust company, insurance company, loan association, or other corporation doing a deposit and loan and discount business, by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security, when any part of the obligations bought or received or sold or issued by it are used in whole or in part in commerce among the several States: (1) *Provided*, That in case any association pays one-half the tax herein imposed on or before the day it is due and payable the other half shall be and is hereby remitted: (2) *And provided further*, That any association is hereby authorized to deposit in the Treasury of the United States an amount of lawful money equal to not less than twelve and one-half per centum of the amount of its capital, and to receive legal-tender notes of the United States to the amount of such deposit. Such notes issued to it shall have a circulating note of such association printed on the reverse side, which note, when the note of the association printed on the reverse side is signed by the proper officers of the association, shall be known as a greenback, and may be paid out by it, but under the same liabilities, obligations, and restrictions as to redeeming such greenbacks in silver or gold coin or United States legal-tender notes, and of keeping such greenbacks at a par with the silver coin and the gold coin of the United States, as are imposed upon national banking associations when like notes are issued to national banking associations: \* *Provided, however*, That the securing such notes

interest every dollar of the \$1,000,000,000 paper money in circulation. The saving in interest to the people under this bill is estimated at from \$36,000,000 to \$50,000,000 per annum, ultimately making that much saving per annum in lower rates of interest on the loans made to the people. Besides these items, J. S. McCoy, Government actuary, estimates the loss to the people in interest on the gold carried in the United States Treasury from 1879 to 1895 at \$144,241,556. It will be more, rather than less, in the next twenty-five years under the present system.

* Cash reserve required in 1897.....	\$287,742,000
Cash reserve held in 1897.....	388,883,000
Including State banks the cash reserve held could not be less than.....	563,000,000

Holding the cash reserve one-third in silver would equal \$186,000,000, and one-third in gold would equal \$186,000,000, one-third in greenbacks, \$186,000,000; total, \$563,000,000; so that the substitution of silver dollars for the \$1 and \$2 notes added to the \$186,000,000 of silver dollars held in banks in the reserve fund would increase the actual coin silver dollar in constant use by \$325,000,000.

by any association other than national banking associations shall confer upon it no authority to issue any other circulating notes. In case any association takes out circulating notes, as provided in this section and named greenbacks in this Act, the tax imposed on such association in this section shall be wholly remitted; but in case such notes are taken out and such tax is remitted such association shall keep such record and make such reports to the Comptroller of the Currency and submit to such examinations by national-bank examiners as are now or may hereafter be required of national banking associations.

Each deposit of money or funds made by any individual or by any association in any other association however organized doing the banking business defined in this section upon which the association receiving such deposit pays or agrees to pay any money or interest shall not be subject to withdrawal excepting on a day named in a notice given in writing to such association, and not less than thirty days before such withdrawal: *Provided*, That this section shall not apply to the total amount of all moneys or funds deposited within the seven days next preceding such notice, or to moneys or funds that banking associations are required to keep and are allowed to keep in other associations as a part of their reserve.

This section of this Act shall take effect on the first day of the first calendar quarter next succeeding the four months next succeeding the day of the approval of this Act.

SEC. 14. That all taxes imposed by this act shall be due and payable semiannually on the first day of April and the first day of October in each year. Any clearing-house association, when requested so to do by any banking association, and with the approval of the Comptroller of the Currency, may assume and may pay any tax imposed on such association by this Act.

All moneys received under this Act unless otherwise provided shall be covered into the Treasury as a miscellaneous receipt. The Treasurer shall keep an account of all moneys paid into the Treasury or paid out by him under each of the several sections of this Act and include a statement of the same in his annual report.

SEC. 15. That upon the insolvency of any association, or whenever, in the opinion of the Comptroller of the Currency, the complete redemption and retirement of the currency issued to and retained by any national banking association is then necessary for the protection of the United States Treasury or of the holders of such currency, the Comptroller may take possession of all the assets of such association, which assets shall be held to include the liability to assessment of all stockholders, and appoint a receiver, who is hereby authorized, under the direction and control of the Comptroller of the Currency, to create and deliver to the Treasurer of the United States a fund equal in amount to such currency; and the receiver, under the direction of the Comptroller of the Currency, is hereby authorized to sell the whole or any part of the property of such association, or to pledge the whole or any part of its property or assets, at any time, as security for any loan he may elect to make in order to create such fund; and if there shall be any assets remaining after the above-mentioned fund is created the Comptroller of the Currency shall then proceed in like manner to create and deliver to the Treasurer of the United States a fund equal in amount to the aggregate of all deposits of moneys made in the association either directly or indirectly by the United States Treasurer, including those of any and all officers or agents of the United States Government; and the receiver, after the completion of such fund or funds or as much thereof as can be realized from the assets, and not before, shall

administer the remaining assets, if there be any, for the benefit of creditors and shareholders of the association; and the Comptroller of the Currency shall have like power and authority, and shall proceed in the same manner in the case of clearing-house associations organized under this Act.

The five per centum reserved from the moneys deposited by the insolvent association for the current redemption of the greenbacks of such association shall be free moneys in the Treasury, and the five per centum on the currency taken out which was deposited for the current redemption of such currency shall be returned to the receiver of the insolvent association.

The greenbacks and currency of an insolvent association shall be immediately redeemed and canceled by the Treasurer of the United States, out of any moneys in the Treasury not otherwise appropriated.

SEC. 16. That the Comptroller may at all times know the condition of each national banking association, each association shall make such record at the close of each day as the Comptroller shall request, in a book kept for that purpose, which record shall show the total amount of its currency paid out and in circulation, and the amount of currency received from redemption agents, and its total individual deposit account, and its total reserve account, as shown by its books at the close of each business day, and of what the reserve consisted, which daily record of deposits, reserve, and currency, and other matter requested by the Comptroller, shall be made up in duplicate for each month, and two copies or reports thereof transmitted to the Comptroller of the Currency on or before the tenth day of the following month.

Before making the record for the day, as required by the Comptroller, every transaction of that day pertaining thereto shall be duly entered in the books of the association.

The records and reports herein provided for, and any other facts and data he may request of associations or any director or officer thereof, shall be in such form as the Comptroller may direct.

National-bank examiners shall be held to be employees in the office of the Comptroller of the Currency while examining associations whose business is covered by this Act, and their fees for such examinations shall be paid out of the appropriation for the Bureau of the Currency.

The operation of so much of all laws or parts of laws as are in conflict with this Act is hereby suspended.

NOTE.—The "visible gold"—gold in banks and in the United States Treasury—is reported by the Comptroller, on page 22, Report of 1896, to be \$421,236,388. January 1, 1899, visible gold amounted to about \$800,000,000.

## APPENDIX.

### INDEPENDENT TREASURIES.

Boston, Mass.....	\$38,910
New York, N. Y.....	190,360
Chicago, Ill.....	37,420
San Francisco, Cal.....	27,120
New Orleans, La.....	20,490
St. Louis, Mo.....	22,460
Cincinnati, Ohio.....	18,760
Washington, D. C.....	
Baltimore, Md.....	38,910
Philadelphia, Pa.....	42,340
<b>Total expenses.....</b>	<b>442,770</b>

### RESERVE CITIES.

Boston, Mass.	San Francisco, Cal.
New York, N. Y.	St. Joseph, Mo.
Brooklyn, N. Y.	Kansas City, Mo.
Albany, N. Y.	St. Louis, Mo.
Cleveland, Ohio.	New Orleans, La.
Detroit, Mich.	Houston, Tex.
Chicago, Ill.	Savannah, Ga.
Milwaukee, Wis.	Louisville, Ky.
Des Moines, Iowa.	Cincinnati, Ohio.
St. Paul, Minn.	Washington, D. C.
Minneapolis, Minn.	Baltimore, Md.
Omaha, Nebr.	Philadelphia, Pa.
Lincoln, Nebr.	Pittsburg, Pa.





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**A COMPARISON**  
**OF THE**  
**HILL-FOWLER BILL, H. R. 10289,**  
**WITH THE**  
**WALKER BILL, H. R. 10333,**  
**BY**  
**SUBJECTS.**

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**PREPARED BY THE CHAIRMAN OF THE COMMITTEE.**

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*A comparison of the Hill-Fowler bill, H. R. 10289,*

Page. Line.

**NO PROVISION MADE FOR TRANSITION PERIOD.**


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No provision made for the assistance of men trained in the business—in transacting the business of banking for 75,000,000 people, and soon to be 200,000,000.  
 No provision made for an appeal from the decision of the Comptroller in any case.

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**NON-INCORPORATED CLEARING HOUSES.**

- 17 18 to 22 Country divided into clearing-house districts by the Comptroller when clearing houses have no legal existence. (How many.)  
 17 23 to 25 Clearing-house district printed on currency notes issued in it.  
 18 1 to 4 Clearing house city?  
 18 2 to 4 Currency notes must be currently redeemed in some banking association in a clearing-house city in its clearing-house district.  
 19 4 to 9 Banking associations must provide for the "current redemption" of its currency notes in every clearing-house district in which its notes are paid out over the counter of banks.  
 No issue of emergency "legal-tender notes" or other emergency "money" provided for.

*with the Walker bill, H. R. 10333, by subjects.*

#### DURING TRANSITION.

- | Page. | Line.    |  |
|-------|----------|--|
| 3     | 8 to 11  | Banks may take greenbacks to 50 per cent of capital.   |
| 3     | 22 to 25 | The taking out of currency restricted to an amount equal   |
| 4     | 1 to 4   | to the greenbacks taken.   |
| 6     | 2 to 8   | Transition is completed [when \$200,000,000 United States notes are assumed by banks and] when the Treasurer sets aside certain gold in the Treasury to redeem and cancel the balance of the outstanding United States notes [viz, \$146,000,000]. |
| 9     | 21 to 24 | After thirty days from the completion of the transition  |
| 10    | 1 to 3   | the required "cash reserve" of banks to be kept, as near as may be, one-third each, in gold coin, silver coin, and greenbacks.   |

COMPTROLLER OF THE CURRENCY THE EQUIVALENT OF THE PRESIDENT, AND THE BOARD OF ADVISERS TO SEVEN DIRECTORS OF THE GENERAL BANKING BUSINESS OF THE COUNTRY, AS ONE BANK.

#### BOARD OF SEVEN ADVISERS.

- |    |          |   |
|----|----------|---|
| 11 | 12 to 17 | To Comptroller of the Currency.   |
| 11 | 18 to 22 | Members are the president of the chief reserve bank in New Orleans, president of chief reserve bank in San Francisco, and the presidents of the chief reserve banks in the other five chief reserve cities. |
| 12 | 1 to 3   | Are to meet annually or upon the call of the Comptroller or upon its own motion.  |
| 12 | 4 to 8   | To keep a record of its doings.<br>In case of doubt as to what persons are to act on the board the Secretary of the Treasury is to decide.  |
| 12 | 9 to 14  | Parties aggrieved at any action of the Comptroller may appeal to the board of advisers.<br>Unanimous decision final.<br>In case a minority dissents the decision of the Secretary of the Treasury final.    |
| 14 | 5 to 10  | May annul by a majority vote any action of the Comptroller proposing to change any by-law of a clearing house.  |

#### INCORPORATED CLEARING HOUSES.

FIVE OR MORE ASSOCIATIONS MAY FORM A CLEARING HOUSE.

- |    |          |   |
|----|----------|---|
| 12 | 15 to 22 | The act of "approving the by-laws" by the Comptroller constitutes the banks associated to adopt them a "body corporate."  |
| 12 | 23, 24   | Any banking association may be admitted a member.   |
| 13 | 1 to 4   | May exclude any association with approval of Comptroller.   |
| 13 | 5 to 9   | Any association may withdraw with approval of Comptroller.  |
| 13 | 10 to 17 | Profits and loss to be shared by the associations making up the clearing house, in the proportion that the capital of each bank is to the total capital of all members. |

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ISSUE AND REDEMPTION DEPARTMENT.

- 2 23 to 25 To Issue and Redemption Department "is committed ALL  
3 1 to 12 FUNCTIONS of the Treasury Department" (excepting  
receiving moneys due the Treasury Department from  
debtors, and making to creditors the disbursements  
provided for by law).  
SHALL HOLD all "Guarantee" and "Redemption"  
funds for circulating notes.  
Through it shall be conducted the operation of *redeeming*  
the "circulating notes" of all associations.  
Shall be transferred to it all gold coin and bullion, silver  
bullion, silver coin and United States notes held against  
"certificates," and the "FUNDS" for the redemption  
of "CIRCULATING NOTES" and the funds for the  
retirement of circulating notes.

Page. Line.

- 13 18 to 21 May buy, borrow, sell, or loan to other clearing houses or banks.
- 13 22 to 24 Usury laws not to apply to transactions of clearing houses.
- 14 1 to 4 May establish a department to "CURRENTLY RE-DEEM" the greenbacks and currency of banks.
- 14 11 to 17 Five or more clearing houses may form a national clearing house.  
All provisions relating to banks in their relation to clearing houses shall apply to clearing houses in their relation to the national clearing house.
- 14 18 to 22 National clearing house may deal in any bonds approved of by the Comptroller.
- 14 23 May provide for the "current redemption" of "circulating notes."
- 15 1, 2 May take out emergency greenbacks in denominations of not less than \$1,000, secured by United States bonds. Section 11.
- 15 3 to 6 May be designated as fiscal agents of the Government and as depositories of public moneys.
- 15 7 to 14 May keep their bonds and moneys with the United States Treasurer or any assistant treasurer with the approval of the Secretary of the Treasury.
- 15 15 to 18 Shall be subject to like examination by national-bank examiners as banks, and to make such reports as the Comptroller may request.
- 15 19 The meeting together of the employees of banking associations to make "clearings" shall constitute the banks employing such persons a "clearing house," and make the banks they represent liable to a tax of one-tenth of 1 per cent on all clearings unless they submit their by-laws for the approval of the Comptroller and become a "body corporate."
- 16 1 to 20
- 17 17 to 21 Emergency legal-tender greenbacks taken by clearing houses or banks may be surrendered and the bonds recovered, or any other greenback may be deposited to the amount of the greenbacks taken out, plus the accumulated interest, and the bonds recovered.
- 18 1 to 7
- 

**So much of the duties named as are necessary are devolved on Secretary of the Treasury, the Treasurer of the United States or on the Comptroller of the Currency.**

Page. Line.

- 3 13 & 14 Such an amount of "subsidiary and minor coins" as the Secretary of the Treasury considers necessary for "the issue and exchange of such coins."
- 3 17 to 19 Accounts of Issue and Redemption Department "SHALL be kept entirely apart and distinct from the other divisions of the Treasury Department."
- 3 23 to 25 Reserve fund SHALL be established in Issue and Re-
- 4 1 to 6 demption Department of 25 per cent of  
\$346 mil. U. S. Notes.  
104 mil.
- |                      |   |               |
|----------------------|---|---------------|
|                      |   | Gold.         |
| 450,000,000          | = | \$112,500,000 |
| and 5 per cent of    |   |               |
| \$500,000,000 silver | = | 25,000,000    |
| Total .....          |   | \$137,500,000 |
- 4 7 to 10 \$137,500,000 gold shall be held as a "common fund" and used *exclusively* to "redeem United States notes, Treasury notes, silver dollars and subsidiary and minor coins." (See page 3, lines 13 and 14.)
- 4 11 to 25 Gets its funds at the option of the Secretary of the Treas-
- 5 1 to 13 ury.
- 5 Sec. 6. TEN mandatory directions for doing its business.
- 6 24 & 25 SHALL "cancel" such amounts of notes "redeemed in
- 7 1 to 4 gold" "as SHALL NOT EXCEED the NATIONAL RESERVE NOTES ISSUED SUBSEQUENT TO THE TAKING EFFECT OF THIS ACT."

## THREE COMPTROLLERS OF THE CURRENCY, AT A COST OF \$23,000.

## Duties prescribed.

First Comptroller a sort of "Assistant Treasurer."

All action dependent on the Secretary of Treasury.

Page 7, line 7.

- 1 6 to 11 Comptrollers do duty of present Comptroller.  
Manage Issue and Redemption Department.
- 1 12 Present office of Comptroller abolished.
- 2 1 & 2 Comptrollers appointed by President and Senate.
- 2 3 & 4 Comptrollers removed by President and Senate.
- 2 4 to 9 Appointed for 4, 8, 12 years; then for 12-year terms.
- 2 10 & 11 In a Comptroller's last four years he is to be First Comptroller.
- 2 12 to 18 First Comptroller, practically Assistant Treasurer, has custody of all funds. To give \$250,000 bond.
- 12 6 to 14 To prepare three kinds of "circulating notes," etc.
- 14 6 to 13 After four years MAY reduce deposit of United States bonds.  
After eight years no bonds shall be required.
- 15 9 to 14 When no more United States notes are available as a basis for "CIRCULATING NOTES" THE deposit of such notes SHALL no longer be required (see page 16, lines 10 to 14), but the deposit of "gold coin" for them may be required.
- 15 15 to 18 May issue reserve notes upon the deposit of gold coin.
- 16 10 to 14

Page. Line.

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PRESENT COMPTROLLER OF THE CURRENCY AT PRESENT COST OF  
\$5,000.

- 3 22 to 25 SHALL issue "CURRENCY" only to the amount of  
4 1 to 4 greenbacks taken during transition.  
4 5 to 11 Thereafter he SHALL issue "CURRENCY" to each bank  
not less in amount than its "greenbacks" and not less  
than 25 per cent in excess of its average circulation of  
"currency" during the two years next preceding, and  
MAY issue to the full amount of actual capital.  
5 3 to 5 May print currency or greenbacks in anticipation of use.  
8 5 to 11 May extend corporate limit of associations.  
May allow banks to reduce their greenbacks to required  
amount, with approval of Secretary of the Treasury.  
8 12 to 17 Shall destroy currency surrendered to him.  
10 4 to 6 May allow associations to keep their bonds and coin in any  
suitable place.  
11 12 to 17 Board of advisers to.  
12 1 to 3 May call a meeting of board of advisers at any time or  
place.  
12 9 to 14 An appeal may be taken from all decisions of the Comp-  
troller to the board of advisers.  
12 15 to 22 By-laws of clearing houses must be approved by comp-  
troller.  
13 1 to 4 Clearing houses can not expel an association without the  
approval of the Comptroller.

Page. Line.

- 15 19 to 25 When no more "reserve notes" are available, the taking out of "reserve notes" shall be no longer required.  
When "reserve notes" are "no longer available," banking associations can issue "currency notes" under the restriction of page 11, lines 10 to 24, and page 14, lines 18 to 21.
- 16 1 to 5 Gives unlimited power to withdraw from circulation "reserve notes" down first to 40 per cent to capital and finally using all the gold reserve, etc. (forcing the hands of the Secretary of the Treasury).
- 16 6 to 8 Thereafter the Comptroller shall equitably "withdraw" "reserve notes."
- 16 24 & 25 Reserve notes withdrawn and canceled by the use of surplus revenue shall not be reissued (when "reserve notes" are withdrawn by the use of surplus revenue, no increase of such notes can thereafter be made).
- 17 5 to 12 May reduce "currency notes" of banks by depositing, etc., with the Assistant Treasurer. (Where is the "Assistant Treasurer" provided for?)
- 17 12 to 17 May reimburse banks for surplus of "bank notes," "REDEMPTION FUNDS," or "currency - note" "GUARANTEE FUND" above amount required to be held against "circulation."
- 17 18 to 25 To divide the United States into redemption districts for redemption of "currency notes."
- 18 19 to 25 In case of failure to redeem in "gold coin," they to immediately put association into insolvency.
- 19 1 to 21
- 20 13 to 23 Shall assess each bank not exceeding 1 per cent on their "currency notes" in circulation to guarantee all "currency notes."
- 20 24 & 25 (See page 4, lines 7 to 10.) May invest "gold guarantee fund" in "United States obligations" at "not exceeding 6 per cent premium" (?) for benefit of the "fund."
- 21 20 to 23 MAY provide for redemption of "reserve" and "bank" notes at subtreasuries.
- 22 12 to 23 When the circulating notes of any bank shall be presented for redemption in sums of \$1,000, made up of reserve notes, bank notes, and currency notes, or any one of them, at the Treasury or subtreasury, the same shall be redeemed in gold coin.
- 23 22 to 25) Banks to report to the Comptroller.
- 24 1 to 6) {
- 24 14 to 25 { One-fourth of 1 per cent per annum tax on franchise, less
- 25 1 to 3 { one-half per cent premium paid on reserve notes taken out, to support Department of Comptroller of the Currency.
- 26 12 to 15 May permit banks to establish "branches."
- 28 4 to 11 May get reports provided in Walker bill. (Very clumsy phraseology.)
- 28 20 to 25 May permit national banks to organize under the act.
- 29 15 to 24 May permit State banks to organize under the act.
- 31 8 to 11 May prepare "circulating notes" in anticipation of delivery to banks.



Page. Line.

- 14 5 to 10 Changes of by-laws of clearing houses to be valid must have the approval of the Comptroller.  
May annul any clearing-house by-law with the concurrence of a majority of the board of advisers.
- 16 21 to 24 May issue to clearing houses, or banks, emergency greenbanks secured by bonds in denominations not less than \$1,000 to the amount of 90 per cent of such bonds, interest to be paid on such greenbacks by the association taking them, at the rate of 6 per cent per annum.
- 20 6 to 24 To decide when banks are to be taxed on their deposits for failure to maintain parity, and on the beginning and ending of the period of taxation.
- 21 1
- 25 7 to 23 May take possession of the assets of unsound banks and—  
First. Create a fund to secure the payment of "currency notes."  
Second. Create a fund to secure the payment of "Government deposits."
- 25 24
- 26 1 to 14
- 27 1 to 21 To have monthly reports of the daily condition of banks, and such other reports as he may request.
-

Page. Line.

A strictly "bank note," called "NATIONAL-RESERVE NOTE," is substituted for United States notes and declared "legal tender."

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Page. Line.

**\$200,000,000 UNITED STATES NOTES PRESERVED AS GREENBACKS.**

- 2 4 to 10 Deposit "lawful money" for.
- 2 21 to 25 Deposit United States notes, Treasury notes, coin or coin
- 3 1 to 7 certificates equal to 12½ per cent of actual capital for new  
issue of "UNITED STATES - LEGAL TENDER  
NOTES."
- 3 12 to 15 They are made the "promise to pay" of the bank, by  
the signatures of its officers.
- 3 20 to 21 Name of United States legal-tender note, plus currency  
note, is "greenback."
- 5 14 to 18 Five per cent current redemption fund furnished by United  
States Treasurer as a common fund for "greenbacks"  
and "currency."
- 7 7 to 11 Holdings to be reduced to 12½ per cent to capital to all  
associations from moneys paid for greenbacks after  
transition is effected.
- 7 12 to 15 Amount of greenbacks held by a bank may be increased  
by the Treasurer to amount required.
- 7 16 to 21 To be reduced below 12½ per cent to capital as banking  
capital increases so as to keep total amount uniform  
[viz., \$200,000,000].
- 8 1 to 4 May be reduced by banks to the amount required with the  
and approval of the Comptroller and the Secretary of the  
8 to 6 Treasury.
- 8 5 to 11 Upon the expiration of corporate existence by insolvency,  
or by consent of Comptroller approved by Secretary of  
the Treasury, the Treasurer shall finally redeem green-  
backs.
- 8 18 to 25 Each bank to keep good its proportion of the 5 per cent  
redemption fund furnished by the Treasurer.
- 9 1 to 2 Current redemption fund can not be counted in the reserve  
of any bank.
- 9 3 to 8 Sums of greenbacks and currency aggregating \$500 or 1  
per cent to capital, of any association, to be redeemed.
- 9 9 to 11 Shall redeem in "LAWFUL MONEY," its "greenbacks,"  
and "currency" at its own banking house and  
At an agency approved by the Comptroller, in some reserve  
city.
- 10 7 to 13 Banks to maintain parity, or be in default.
- 10 14 to 17 Can not plead in defense, when in default, that its own  
"greenbacks" are "United States notes."
- 11 1 to 11 Not to be issued in denominations of less than \$3.
- 15 1 to 2 Emergency greenbacks secured by bonds in denominations
- 16 21 to 24 of not less than \$1,000 may be taken out by banks or
- 17 1 to 21 clearing house.
- 18 1 to 7
- 26 15 to 17 Five per cent reserved for redemption fund to be free  
moneys in the Treasury in case of insolvency.
- 26 22 to 25 In case of insolvency to be immediately redeemed by the  
Treasurer and canceled.
-

## NATIONAL "RESERVE NOTES."

Page. Line.

- 8 16 to 25 Exchange of United States notes (only) for "reserve notes."  
 Redeemable in "gold coin" ONLY.
- 9 20 to 24 May exchange United States notes for "reserve notes"
- 10 1 to 7 equal to its paid-up capital.
- 12 15 to 20 To imitate the present United States legal-tender note and contain "promise of association" to redeem at office in gold coin.
- 13 18 to 23 This bank note a "full legal-tender" excepting for duties on imports and interest on the public debt.  
 May be "used in reserves of any association."
- 15 15 to 18 Deposits of gold coin instead of United States notes for
- 16 10 to 14 them, but not in excess of reserve notes destroyed.
- 15 19 to 25 Comptrollers may dispense with their use.
- 16 1 to 5 Withdraw holdings above 40 per cent to be first made.
- 16 6 to 8 Thereafter such withdrawal SHALL be equitably made.
- 16 8 & 9 Destroy all reserve notes "withdrawn."
- 16 24 & 25 Once "surplus revenues" are used to cancel reserve notes, no more "reserve notes" can thereafter be issued.
- 16 25 to 23 Surplus funds as "surplus revenue" (after United States notes and Treasury notes are destroyed) used to cancel "reserve notes."
- 17 1 to 4 Reserve notes of any association decreased shall not lessen the "circulating notes" any banking association would otherwise be entitled to. (See page 15, lines 18 to 25.)
- 21 14 to 20 Shall keep in Issue and Redemption Department a "redemption fund" in "gold coin equal to 5 per cent of its 'reserve notes'" (and bank notes).
- 19 2 to 4 In case of insolvency to be redeemed from the general "reserve" in Issue and Redemption Department.
- 20 1 to 5 Upon redemption, in case of insolvency, shall be destroyed.
- 21 21 to 23 } Shall be redeemable at "subtreasuries".
- 22 12 to 23 }
- 21 25 & 25 Shall be currently redeemed in gold coin in amounts of
- 22 12 to 23 \$1,000, including all circulating notes.
- 23 6 to 8 (Old law) 5 per cent gold redemption fund can be counted in reserve.
- 24 21 to 24 Banks paid  $\frac{1}{2}$  per cent per annum premium for taking out reserve notes.
- 28 12 to 19 The taking of "reserve notes" made compulsory.
- 29 4 to 11 Banks shall be dissolved upon failure "to comply with any provision of this act."

## NATIONAL "BANK NOTES."

- 9 1 to 3 Depositing United States bonds for "bank notes."
- 9 9 to 11 Can secure "bank notes" plus "currency notes" to an
- and 18 amount equal to its "paid up capital."
- 10 8 & 9 May take "bank notes" equal to par of United States
- 10 14 to 27 bonds deposited, and to amount of capital, page 9, line 24, and page 11, line 17, but reduced by currency notes taken.

Page. Line.

Has no corresponding note.

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Has no corresponding note.

- Page. Line.
- 11 5 to 9 If bonds depreciate below par, more bonds must be deposited.
- 12 23 to 25 To imitate present "NATIONAL BANK NOTES."
- 13 1 to 3 Contain promise of association to redeem at its office in gold coin or "reserve notes."
- 13 24 & 25 } Legal tender "between banks."
- 14 1 & 2 }
- 14 3 to 5 Can not "count ITS OWN" bank notes or currency notes in its cash or "cash assets."
- 17 1 to 4 Canceling reserve notes of any bank by use of "surplus revenue" not to lessen "circulating notes" of such bank. (See page 14, lines 18 to 21.)
- 17 5 to 12 Banks may reduce bank notes by depositing with the "ASSISTANT TREASURER" in charge of the Issue and Redemption Department a sum in gold coin equal to the amount of the reduction desired, or by redeeming its notes in gold and sending them to the Comptrollers of the Currency.
- 21 14 to 20 Shall keep in Issue and Redemption Department a "redemption fund" in gold coin equal to 5 per cent of its "bank notes."
- 19 4 to 9 Bonds deposited to be sold to redeem bank notes in case of insolvency.
- 20 1 to 5 Destroyed when redeemed, in case of insolvency.
- 21 21 to 23 } Redeemable at Treasury or "subtreasuries" only.
- 22 13 to 23 }
- 21 24 & 25 } SHALL be "currently redeemed" in gold coin in sums of
- 22 13 to 23 } \$1,000, made up of all kinds of circulating notes.
- 23 6 to 8 (Old law) Its 5 per cent gold redemption fund can be "COUNTED IN ITS RESERVE."

**"CURRENCY NOTES."**

**NOT SECURED BY THE GUARANTY OF THE GOVERNMENT.**

- 9 4 to 8 Bank assets liable for "currency notes."
- 9 9 to 11 Can take out "currency notes" plus "bank notes" to an amount equal to its paid-up capital.
- 11 10 to 24 Restrictions not to exceed "reserve notes" taken; not to exceed bank notes taken; not to exceed 40 per cent to paid-up capital, but can take 20 per cent more, with 40 per cent of bank notes, equals 100 per cent by paying 6 per cent per annum tax on last 20 per cent.
- 12 11 In denominations of \$10, and multiples thereof for all circulating notes.
- 13 4 to 9 Shall contain promise of association to redeem at its office in gold coin or "reserve notes."
- 13 10 to 15 To state on its face issued under this act.
- 17 18 to 22 To state on its face its clearing-house district.
- 17 23 to 25 To state on its face the number of its clearing-house district. (How many clearing-house districts.)
- 13 24 & 25 } Legal tender "between banks."
- 14 1 & 2 }
- 14 3 to 5 Can not count its own "currency notes" in its cash assets.

Page. Line.

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"CURRENCY."

SECURED BY THE GUARANTY OF THE GOVERNMENT.

- 4    5 to 11    SHALL be issued to banks equal in amount to 25 per cent more than the currency the bank averaged to have in circulation during the two years next preceding (to be determined by amount of currency a tax was paid on), and the Comptroller may issue currency to a bank to the full amount of actual capital.
- 4    12 to 15    Current redemption fund equal to 5 per cent of currency in actual circulation.
- 4    16 to 18    A common redemption fund for currency and greenbacks.
- 4    19,    20    Lawful name "currency."
- 5    1,    2    To have printed on it that it is to be finally redeemed by the Treasurer of the United States.
- 5    3 to    5    Supply may be printed in advance of use.
- 8    12 to 17    May be reduced only by being surrendered to Comptroller.
- 8    18 to 25    Each bank to keep good its 5 per cent current redemption fund on its currency and the 5 per cent redemption fund on greenbacks furnished by the Treasurer.
- 9    1,    2    Current redemption fund can not be counted in the reserve of any bank.

Page. Line.

- 17 1 to 5 Withdrawal for cancellation of "reserve notes" of any bank not to lessen "circulating notes" of such bank.
- 17 5 to 12 May reduce holding of "currency notes" by depositing with the "Assistant Treasurer in charge of the Issue and Redemption Department" a sum in gold coin equal to the amount of the reduction desired, or by redeeming its notes in gold and sending them to the Comptroller of the Currency. (Where is the provision for an Assistant Treasurer?)
- 17 18 to 25 Shall be "redeemed" in their respective districts.
- 18 1 to 4 Shall be "currently redeemed" by some association in a clearing-house city of its own district.
- 18 19 to 25 Failure to redeem any circulating notes in gold an act of
- 19 1 to 25 insolvency, and bank is immediately put in liquidation.
- 18 5 to 10 Can not be paid out "over the counter" of *all* banks outside its district, unless there is a redemption agency in *all* redemption districts.
- 18 11 to 18 Shall keep an amount in "gold coin" in the Issue and
- 23 17 to 21 Redemption Department as a "guarantee fund" equal to 5 per cent of its currency notes "not returned to the Comptroller."
- 18 19 to 25 "Guarantee fund" used to redeem currency notes in case of insolvency.
- 19 10 to 12 Surplus over amount received on sale of bonds over that necessary to pay "bank notes" to be applied to the redemption of "currency notes" in case of insolvency.
- 20 1 to 5 Destroyed when redeemed in case of insolvency.
- 22 13 to 23 SHALL be currently redeemed in gold (as "circulating notes") at SUBTREASURIES in sums of \$1,000 for all notes. (See page 21, lines 14 to 20.)
- 23 6 to 8 Can not count its 5 per cent gold "guarantee" fund in its
- 9 to 17 reserve.
- 23 Six per cent tax per annum on "currency notes" exceeding 40 per cent to capital or plus bank notes exceeding 80 per cent to capital.
- 23 18 to 21 Tax on all the last 20 per cent of 60 per cent capital of currency notes to capital not returned to the Comptroller or "gold coin" deposited with Comptroller for their retirement.
- 23 22 to 25 } Tax on currency notes collected each month.
- 24 1 to 6 }
- 25 13 to 20 Deposit of gold coin required equal to its "currency notes" in circulation, in case of insolvency.

## "CIRCULATING NOTES."

(USED FOURTEEN TIMES.)

- 3 5 Means "reserve notes," "bank notes," and "currency notes."
- 3 16 Means "reserve notes," "bank notes," and "currency notes."
- 8 16 The words "circulating notes" defined as including "reserve notes," "bank notes," and "currency notes."



Page.	Line.	
9	2 to 8	Sums of greenbacks and currency aggregating \$500, or aggregating 1 per cent to capital, of any association to be redeemed.
9	9 to 11	Shall redeem in "LAWFUL MONEY" its "greenbacks" and currency at its own banking house, and also at an agency appointed by the Comptroller in some "reserve city."
10	14 to 17	Banks to maintain parity or be subject to penalty tax.
11	1 to 11	Not to be issued in denominations less than \$3.
21	3 to 17	Taxed not more than one-fifth of 1 per cent per annum when there is \$8,000,000 in the Treasury, accumulated for this tax and in no case over 1 per cent per annum, at the discretion of the Secretary of the Treasury.
26	18 to 21	The 5 per cent redemption fund to currency to be returned to associations in case of insolvency.
26	22 to 25	In case of insolvency, currency to be immediately redeemed and canceled by United States Treasurer.

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"CIRCULATING NOTE."

(USED FOUR TIMES.)

3	4	Means "greenback."
3	10	Means "greenback."
9	6	Means "greenbacks" and "currency."
14	23	Means "greenbacks" and "currency."

Page.	Line.	
9	2	Means "bank notes" received upon deposit of United States bonds.
10	19	Means "bank notes" in circulation when the act shall be passed.
12	10	Means "reserve notes," "bank notes," and "currency notes."
14	20	Means "reserve notes," "bank notes," and "currency notes."
		(When bonds are withdrawn "bank notes" are necessarily retired by the amount of bonds withdrawn, as "bank notes" are described as bond-secured notes. (See page 9, lines 1 to 3.) To keep up the amount of "circulating notes" the vacuum caused by the withdrawal of "bank notes" must be supplied, if at all, by taking out one-half "reserve notes" and one-half "currency notes," as provided in page 11, lines 10 to 24, subject to the provision on page 17, lines 1 to 4.)
17	3	Means "bank notes" and "currency notes" which must supply the place of the withdrawn "reserve notes," one-half of each, as provided on page 11, lines 10 to 24, subject to page 14, lines 18 to 21.
15	12	Means "reserve notes," "bank notes," and "currency notes" (and that the depositing of United States notes and the securing "reserve notes," as provided on page 11, lines 10 to 24, is a "basis" or condition precedent to securing either "bank notes" or "currency notes," and continues for all time, excepting as modified on page 16, lines 15 to 25, and page 17, lines 1 to 4).
17	3	Means "reserve notes," "bank notes," and "currency notes."
17	17	Means "reserve notes," "bank notes," and "currency notes."
18	24	Means "reserve notes," "bank notes," and "currency notes."
21	17	Means the present bank notes secured by bonds.
22	12	Means "reserve notes," "bank notes," and "currency notes."
29	9	Means "reserve notes," "bank notes," and "currency notes."

## SPECIAL FUNDS TO BE HELD IN TREASURY.

## A RESERVE FUND.

## A REDEMPTION FUND.

## A GUARANTEE FUND.

- 2 23 to 25 Issue and Redemption Department "shall redeem the circulating notes of banking associations," shall hold all "redemption funds" and all "guarantee funds" of banks.
- 3 23 to 15 To the Issue and Redemption Department shall be committed \$137,500,000 gold to redeem United States notes and Treasury notes. (Amount to be "kept" in this fund decided by the Secretary of the Treasury. Page 4, lines 11 to 18.)
- 4 1 to 6

Page. Line.

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SPECIAL FUNDS TO BE HELD IN TREASURY.

ONLY A CURRENT REDEMPTION FUND.

- 4 16 to 18 Equal to 5 per cent of currency, it averages to keep in circulation held as a common "current redemption fund" for the current redemption of "greenbacks" and "currency."
- 5 14 to 18 Equal to 5 per cent of greenbacks, held as a common "current redemption fund" for the current redemption of "greenbacks" and "currency."

Page. Line.

- 17 12 to 17 Issue and Redemption Department may return to banks any excess in the Guarantee Fund or Redemption Funds.
- 21 6 to 13 Issue and Redemption Department to add to Guarantee Fund and to Redemption Funds all receipts from investments of such funds and all taxes on circulation. (See page 17, lines 12 to 17.)
- 21 14 to 20 Gives Issue and Redemption Division a basis for estimating the redemption fund of each bank, viz, equal to 5 per cent of "bank notes" and 5 per cent of "reserve notes."

## CANCELING UNITED STATES NOTES AND TREASURY NOTES.

- 6 24, 25 Issue and Redemption Department shall cancel an amount
- 7 1 to 4 of United States notes or Treasury notes, that gold coin has been exchanged for, as shall not exceed the amount of national "reserve notes" issued subsequent to the taking effect of this act.\*
- 7 5 to 12 Secretary of the Treasury may in his discretion from any fund in the general Treasury not otherwise appropriated, transfer to the Department of Issue and Redemption any United States notes or Treasury notes WHICH on such transfer COULD THEN LAWFULLY BE CANCELED \* \* \* IF THEY HAD BEEN REDEEMED ON PRESENTATION; and when so transferred the same shall be canceled.
- 10 5 to 7 United States notes received in Issue and Redemption Department for "reserve notes" shall be canceled as received.
- 7 13 to 19 Whenever there may be United States notes including Treasury notes in the general Treasury NOT AVAILABLE as "surplus revenue" they may be exchanged with the Department of Issue and Redemption for "gold coin" and such notes SHALL THEREUPON BE CANCELED.
- 7 20 to 24 United States notes including Treasury notes once redeemed shall not be paid out except for gold.
- 7 25 United States notes or Treasury notes accumulated in the
- 8 1 to 7 Department of Issue and Redemption may be invested by the SECRETARY OF THE TREASURY in interest-bearing obligations of the Government for the benefit of the gold reserve in the Department of Issue and Redemption subject to sale by the SECRETARY OF THE TREASURY.

\* Paying out gold coin in exchange for United States notes and Treasury notes is "redeeming them on presentation."

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## CANCELING OF UNITED STATES NOTES.

- 5 6 to 14 95 per cent of moneys paid into the United States Treas-  
 ury "for greenbacks" to be used to redeem and cancel  
 a like amount of old issue of United States notes to a  
 certain amount.
- 5 19 to 24 After a certain amount of United States notes have been  
 6 1 changed into greenbacks [say \$200,000,000], the United  
 States Treasurer to set aside certain gold in the Treasury  
 equal in amount to the old issue of United States notes  
 then outstanding as a "*special fund*" to redeem and can-  
 cel such notes—[viz, \$146,000,000].

Page. Line.

## SECRETARY OF THE TREASURY.

- 3 13 to 14 Subsidiary and minor coins (transferred to Issue and Redemption Department) as "SHALL consider necessary," etc. (See 15 and 14.)
- 4 11 to 18 SHALL maintain the (25 per cent and 5 per cent) gold reserve for United States notes and Treasury notes and silver dollars in the Issue and Redemption Department "at such sum as shall secure the CERTAIN AND IMMEDIATE REDEMPTION OF ALL NOTES and all silver dollars," etc.
- May transfer to Issue and Redemption Department ANY funds in the Treasury, not otherwise appropriated, in excess of \$50,000,000.
- 4 18, 19 SHALL reserve a \$50,000,000 [PANIC FUND] in Treasury.
- 4 20 to 25 May (shall) "ISSUE AND SELL FOR GOLD coin and  
5 1, 2 "REDEEMABLE IN GOLD COIN" 3 PER CENT ONE-YEAR—FIVE YEARS certificates to maintain the reserve in Issue and Redemption Department.
- 5 3 to 7 Authorized to exchange gold coin with Issue and Redemption Department for United States notes or Treasury notes.
- 5 7 to 13 Authorized to exchange with Issue and Redemption Department one denomination of notes for other denominations, and one kind of notes for other kinds.
- 7 5 to 25 \* May transfer to Issue and Redemption Department,  
8 1 to 7 from any unappropriated funds in "THE GENERAL TREASURY," UNITED STATES OR TREASURY NOTES, WHICH, ON SUCH TRANSFER, COULD THEN BE LAWFULLY CANCELED UNDER THE ACT, IF THEY HAD BEEN REDEEMED ON PRESENTATION, and THEY SHALL BE CANCELED. (Annul all restrictions other than reserve notes issued.)
- 16 15 to 23 To use funds available as "surplus revenue" to transfer to Issue and Redemption Department (to cancel United States notes, Treasury notes, or "reserve notes").

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\* Comptrollers are made simply clerks.

Page. Line.

## SECRETARY OF THE TREASURY.

- 3 16 to 19 May issue such United States legal-tender notes as are prescribed in the bill.
- 8 5 to 11 May approve of action of Comptroller in allowing banks to reduce their holdings of "greenbacks."
- 9 12 to 20 May approve deposits of "current redemption funds" in certain places, in the devolving the duties of "current redemption" upon reserve banks or other suitable agents.
- 12 4 to 8 In case of doubt as to what persons can act on "Board of Advisers to the Comptroller," the Secretary of the Treasury to decide.
- 12 9 to 14 In case of an appeal from the decision of the Comptroller to the Board of Advisers, and the decision of the board is not unanimous, in such case the decision of the Secretary of the Treasury to be binding and final.
- 14 23, 24 May designate clearing houses as fiscal agents or depositories of public moneys.
- 15 7 to 14 May direct the Treasurer or any assistant treasurer of the United States to accept from banks for "safe keeping" any kind of money or bonds.
- 16 21 to 24 To approve action of Comptroller in issuing emergency
- 17 1 to 16 greenbacks to clearing houses or banks  
Also, approve of the bonds deposited as security for such notes.
- 18 16 to 22 To publish in the "STATEMENT OF THE CONDITION OF THE UNITED STATES TREASURY AND ITS RECEIPTS AND EXPENDITURES" a list of securities accepted to secure emergency greenbacks or deposit of public moneys.
- 18 23 to 25 May issue and sell, "to carry into effect the provisions of the act of January 14, 1875, entitled 'An Act to provide for the resumption of specie payments,' and of this act FOR THE PERIOD OF FOUR YEARS BONDS DESCRIBED in the Act of July 14, 1870, entitled 'An Act to authorize the funding of the national debt,'" 1-3 year bonds, 3-7 year bonds, and bonds due on a day certain to run not exceeding three years.
- 21 3 to 12 To decide on the amount of the tax associations shall pay on the average circulation of their "currency," but in no case over one-fifth of 1 per cent per annum.
- 21 12 to 17 One-fifth of 1 per cent when \$8,000,000 are accumulated
- 22 1 to 3 from such tax, and not over 1 per cent per annum in any case.
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Page. Line.

## TREASURER OF THE UNITED STATES.

- 2 12 to 18 First Comptroller to be (practically) an assistant treasurer.  
9 20 to 24 Deposit with the Treasurer United States notes and  
10 1 to 4 receive from Comptroller "reserve notes." [Why not  
deposit with the Comptrollers?]  
10 8, 9 Deposit with Treasurer United States bonds and receive  
10 14 to 17 from Comptroller "bank notes" of Issue and Redemption  
Department.  
22 12 to 23 To currently redeem "circulating notes" in gold coin at  
subtreasuries [conflicts with page 3, lines 17 to 19, or  
there must be an Issue and Redemption Department in  
every subtreasury.]  
24 14 to 20 Receive annual taxes of one-fourth of 1 per cent on fran-  
chise.  
24 24, 25 Hold taxes on franchise as a separate fund to pay expenses  
25 1 to 3 of Comptroller.
-



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## TREASURER OF THE UNITED STATES.

- 5 6 to 14 Shall destroy an amount of existing United States NOTES equal to 95 per cent of amount paid in to take out greenbacks.
- 5 14 to 18 Shall set aside 5 per cent of such amount as a common redemption fund for "greenbacks" and "currency."
- 5 19 to 24 To set aside "CERTAIN GOLD" in Treasury [in a certain case, viz, when \$200,000,000 old United States notes have been canceled and new greenbacks issued to banks equal in amount to outstanding United States notes] as a "SPECIAL DEPOSIT" to redeem and cancel the balance of United States notes (\$146,000,000).
- 6 1
- 6 9 to 15 To hold all moneys paid in for greenbacks after the "transition period" from the present law to the new law, as a SEPARATE FUND.
- 6 16, 17 To be used to equitably adjust the holdings of the green-
- 7 1 to 6 backs among all commercial banking associations.
- 7 7 to 11 SHALL first reduce the holding of those associations holding the largest amount of greenbacks in proportion to their capital.
- 7 11 to 15 May require banks to increase their greenbacks to legal requirements.
- 7 16 to 21 SHALL reduce the amount associations are required to take below 12½ per cent when necessary, to keep the total amount of greenbacks to a fixed amount [viz, \$200,000,000].
- 7 22 to 25 The balance of the "special gold fund" remaining two years after being set aside shall be free money in the Treasury.
- 8 5 to 11 In case of expiration of charter or insolvency shall redeem greenbacks by order of the Secretary of the Treasury.
- 8 18 to 25 To keep AT ALL TIMES "IN LAWFUL MONEY" the 5 per cent "greenback" and 5 per cent "currency" current redemption fund.
- 9 12 to 20 May keep "current redemption funds" in any reserve bank or with any suitable agent approved of by the Secretary of the Treasury.
- May devolve duties as to the current redemption of circulating notes on any reserve bank or any other suitable agent.
- 10 18 to 24 To issue no more silver, gold, or currency certificates, and to cancel all now existing as they are paid in to the Treasury.
- 15 7 to 14 Treasurer or Assistant Treasurers to receive for "safe-keeping" any bonds or moneys from any bank or clearing house upon the approval of the Secretary of the Treasury.
- 16 21 to 24 To issue emergency greenbacks upon bond security by
- 17 1 to 21 direction of the Secretary of the Treasury.
- 18 1 to 7
- 19 15 to 20 To receive taxes.
- 21 3 to 12
- 24 15 to 17
- 25 1 to 6 To keep separate accounts of moneys received and paid out under each section of the act.

Page. Line.

## GENERAL PROVISIONS.

- 24 14 to 20 Franchise tax of one-fourth of 1 per cent per annum.  
25 21 to 24 In places of 50,000 inhabitants or over, banks shall not be  
26 1 to 11 organized with less than \$250,000 capital.  
In places of over 6,000 and under 50,000 people, not less  
than \$100,000 capital.  
In places of over 3,000 and under 6,000 people, not less  
than \$50,000 capital.  
In places of less than 3,000 people, not less than \$25,000  
capital.
- 26 12 to 15 Banks may establish branches, etc.  
27 9 to 13 Examiners to have fixed salaries.  
27 14 to 25 Concerning examiners.  
28 1 to 3  
29 4 to 11 Comptroller shall dissolve all national banking associa-  
tions that *fail to comply* within one year *with ANY*  
SINGLE *provision of this act.*
- 31 16 to 18 Repealing sections.

Page. Line.

## GENERAL PROVISIONS.

- 2 11 to 14 \$25,000 banks in places of less than 4,000 inhabitants.
- 2 15 to 20 Capital means "PAID IN CAPITAL, SURPLUS, AND  
UNDIVIDED PROFITS."
- 9 21 to 24 After transition is completed banks SHALL KEEP their
- 10 1 to 3 "cash reserve," as nearly as may be, in equal parts of  
gold coin, silver coin, and "greenbacks of other banks."
- 19 15 to 20 Any average deficiency in the average total reserve a  
bank is required to keep, for any month, is taxed at the  
rate of 6 per cent per annum.
- 22 4 to 25 Tax imposed on the deposits of all "commercial banks"
- 23 1 to 11 that fail to organize under the act, or fail to assume  
their share of greenbacks, of one-tenth of 1 per cent per  
annum (that they may be induced to assume their fair  
share of the obligation of maintaining parity).
- 23 12 to 20 All commercial banking associations other than national
- 24 1, 2 banks, assuming greenbacks, are to make reports to  
the Comptroller and be examined by national bank  
examiners.
- 24 3 to 14 Associations may require from depositors thirty days'  
notice of intention to withdraw "deposits" upon which  
interest is paid for more than seven days, but this does  
not apply to "that part of the reserves of banks which  
they are allowed to deposit in other banks."
- 24 15 to 17 Section 13 goes into effect the first day of the calendar  
quarter next succeeding the four months next succeed-  
ing the passage of the act.
- 24 18 to 24 All taxes imposed are due and payable on April 1 and  
October 1.
- 25 1 to 6 All moneys collected under the act to be paid into the  
Treasury as a "miscellaneous receipt." Treasurer to  
keep separate account of all moneys received and all  
moneys paid out under each section of this act.
- 27 22 to 24 Bank examiners are employees of the Department of the
- 28 1, 2 Comptroller.

**EXPENSES, ETC., OF BANKS IN CENTRAL RESERVE CITIES  
COMPARED WITH BANKS IN TEN SMALL TOWNS AS TO  
ITEMS OF BANK FUNDS AND AS TO PERCENTAGE OF  
EXPENDITURES TO VARIOUS FUNDS, ETC.**

**CENTRAL RESERVE CITIES.**

Paid-in capital.....	\$76, 700, 000. 00
Surplus and other profits.....	73, 096, 619. 89
Actual capital.....	149, 796, 619. 89
Deposits.....	645, 633, 468. 73
Circulation.....	18, 652, 022. 50
Total.....	814, 082, 111. 12
Annual expenses and taxes.....	12, 640, 059. 13
Minimum United States bonds required.....	3, 650, 000. 00
	Per cent.
Per cent of expenses to paid-in capital.....	16. 48
Per cent of expenses to actual capital.....	8. 44
Per cent of expenses to bank funds.....	1. 55
Percentage of bonds to paid-in capital.....	4. 76
Percentage of bonds to actual capital.....	2. 44
Percentage of bonds to bank funds.....	0. 45

**TEN SMALL TOWNS.**

Paid-in capital.....	\$930, 000. 00
Surplus and other profits.....	543, 000. 00
Actual capital.....	1, 473, 000. 00
Deposits.....	1, 914, 829. 78
Circulation.....	460, 580. 00
Total.....	3, 848, 409. 00
Annual expenses and taxes.....	65, 424. 00
Minimum United States bonds required.....	232, 500. 00
	Per cent.
Per cent of expenses to paid-in capital.....	7. 04
Per cent of expenses to actual capital.....	4. 44
Per cent of expenses to bank funds.....	1. 61
Percentage of bonds to paid-in capital.....	25. 0
Percentage of bonds to actual capital.....	15. 78
Percentage of bonds to bank funds.....	6. 04

TREASURY DEPARTMENT,  
OFFICE OF THE COMPTROLLER OF THE CURRENCY,  
Washington, D. C., August 22, 1898.

Hon. J. H. WALKER,  
*Chairman Committee on Banking and Currency:*

*Statement showing the amount of expenses and taxes paid by the national banks located in the central reserve cities of New York, Chicago, and St. Louis, as shown by the semi-annual reports of earnings and dividends as made to the Comptroller of the Currency for the year ending September 1, 1897.*

SEPTEMBER 1, 1896, TO MARCH 1, 1897.

Expenses and taxes.

New York City .....	\$4, 885, 142. 08	
Chicago .....	1, 185, 791. 88	
St. Louis .....	477, 888. 58	
		<u>\$6, 548, 822. 54</u>

MARCH 1, 1897, TO SEPTEMBER 1, 1897.

Expenses and taxes.

New York City .....	\$4, 515, 296. 63	
Chicago .....	1, 183, 892. 26	
St. Louis .....	392, 047. 70	
		<u>\$6, 091, 236. 59</u>

Total for year ending September 1, 1897 ..... 12, 640, 059. 13

TREASURY DEPARTMENT,  
OFFICE OF THE COMPTROLLER OF THE CURRENCY,  
Washington, D. C., July 29, 1898.

Hon. J. H. WALKER,  
*New Hampton, N. H.*

SIR: In compliance with your request of July 26, I inclose herewith a statement showing the expenses and taxes, during six months, of ten banks, "located in the smallest places in which there is a single bank, having capital, surplus, and undivided profits of, approximately, \$145,000 to \$155,000."

Very respectfully,

CHARLES G. DAWES, *Comptroller.*

Actual average capital ..... \$147, 300. 00  
Average annual expenses ..... 6, 542. 40

State.	Bank.	Popu- lation.	Capital.	Surplus and profits.	Expenses and taxes last six months.	Individual deposits, report of 1896.
Delaware .....	Milford First National Bank ..	1, 300	\$60, 000	\$36, 000	\$2, 966	\$307, 254. 81
Indiana .....	Rising Sun, National Bank of ..	1, 800	100, 000	42, 000	3, 091	84, 075. 55
Massachusetts ..	Natick, National Bank of .....	1, 000	100, 000	42, 000	4, 401	328, 616. 47
New Jersey .....	Medford, Burlington County ..	1, 000	100, 000	46, 000	1, 776	103, 701. 19
New York .....	New Paltz, Huguenot National Bank.	1, 200	100, 000	41, 000	4, 016	163, 510. 59
Do .....	Pine Plains, Stissing National Bank.	700	90, 000	52, 000	2, 698	109, 845. 70
Do .....	Warwick First National Bank.	1, 700	100, 000	50, 000	3, 655	176, 276. 32
Pennsylvania .....	Ambler First National Bank ..	1, 100	100, 000	55, 000	3, 988	220, 854. 02
Do .....	Burgettstown, Burgettstown National Bank.	1, 000	80, 000	74, 000	2, 350	223, 599. 50
Do .....	Kennett Square, National Bank of.	1, 500	100, 000	45, 000	3, 771	200, 085. 63
	Total .....		\$80, 000	543, 000	32, 712	1, 914, 829. 78

## THE CLEARING HOUSES IN THE COUNTRY.

[Statement prepared by the chairman of the committee.]

The clearing house has become indispensable to the conduct of the business of banking. Each bank, large or small, country or city, is indissolubly connected with other banks, and through them, if not directly, with the clearing house. The efficiency of a bank is very largely dependent upon the clearing house. Only through clearing houses can the equality and independence of banks be preserved or their highest efficiency attained.

It is as necessary to banks to have incorporated clearing houses as it is to business firms and corporations to have incorporated banks. The incorporation of neither is absolutely necessary. In fact, a large part of banking is done by private firms, but only by reason of the existence of banking "corporations" are they successful. All the banking of the world, or of the country, could not be done outside of the obligations and responsibility imposed in fixed legal rules and the control of banks by positive corporation law. Whatever may be the appearances to the contrary, a bank can not exist by itself alone in this stage of commercial development, like a cotton or woolen factory, which is all the more reason for uniform regulation and control of banks by law.

Of seventy-six clearing houses given on page 551 of volume 1, Report of the Comptroller of the Currency for 1897, I have examined the constitution and by-laws of fifty-five at hand, and herein indicate the main provisions of all taken together. I see no reason why each one of these clearing houses could not continue, if incorporated under the Walker bill (H. R. 10333), the doing of its business in such manner as it has chosen for itself and without any substantial alteration of its constitution or by-laws. Of course, the advantages of a broader field and the security of more definite rules, by many of them, are so obvious, it is believed they would soon enter upon a broader and at the same time equally conservative action. There are no substantial provisions in the regulations of any of the fifty-five examined not given under the name of some one of them. None contains any substantial provisions not enumerated under the name of some one of those mentioned. Some forbid what others require, according to the volume or kind of business they do.

### ST. LOUIS, MISSOURI.

Article 1, section 1. "The object of the association shall be the effecting, at one place, of the daily exchanges between the several associated banks and bankers, \* \* \* and the fostering and promoting of sound conservative banking; \* \* \* the regulating of exchanges, the fixing of minimum rates to be charged on outside drafts and collections," etc.

Section 3. The committee of management shall have power to suspend any bank by unanimous vote \* \* \* but shall forthwith call a meeting of the association to consider such suspension, etc.

Section 8. The action of the clearing house is only that of an agent, and in no case shall this association be held responsible for any loss that may occur by reason of its action.

Section 11. Whenever any member of the association shall send and receive through the clearing house the exchanges of any bank in the city or vicinity who are not members, such sending and receiving shall ipso facto and without further notice constitute said member the agent for said bank at the clearing house, etc.

Section 13. A standing committee of five bank officers or bankers shall be elected, to be called a committee of arbitration, whose duty it shall be to hear and determine all disputes that may be submitted to it by both parties thereto. \* \* \* A majority decision shall be valid.

Section 15. No member shall be added to this association having a paid-up capital of less than \$500,000.

Section 17. Shall pay an entrance fee of \$1,000 and in addition its several assessments for expenses.

Article 2, section 1. Each member of the association shall furnish the manager a sworn statement of its condition as often as five times each year \* \* \* and at such other times and of such date as the clearing-house committee may require. \* \* \*

The following shall be regarded as cash reserve, viz:

- Balances due from other banks payable on sight draft,
- Silver,
- Gold,
- Legal tenders,
- National-bank notes,
- Gold and silver certificates,
- Amount due United States Treasurer,
- Clearing-house loan certificates.

Section 2. Upon a vote of four-fifths of the members of this association a committee of five shall be elected by the association, who may receive from banks, members of the association, bills receivable and other securities to be approved by it, and shall be authorized to issue therefor to such depositing bank loan certificates to an amount not to exceed 75 per cent of the face value of the securities or bills receivable so deposited, etc.

#### ROCHESTER, NEW YORK.

Section 24. No member of this association shall clear for any other institution or banking firm not a member.

#### BUFFALO, NEW YORK.

Section 7. Any bank, after one day's notice of a hearing before the association, may be expelled from the association and debarred from all the privileges of the clearing house by a four-fifths vote of the whole number of associated banks.

Section 8. The clearing-house committee, acting in concurrence with the arbitration committee, may cause an examination to be made of any bank member of the association \* \* \* and shall have power to suspend any bank, etc.

Section 19. Balances shall be paid in—

- United States Treasury certificates.
- United States legal-tender notes.
- National-bank notes.
- Gold coin.
- Gold certificates.
- Silver certificates.

Section 25. This association shall receive \* \* \* on special trust such United States gold coin as any member \* \* \* may choose to send to it for safe-keeping, for clearing-house purposes; \* \* \* certificates in exchange for such coin shall be issued to the depositing bank in denominations of \$5,000, etc., \* \* \* negotiable only among banks, members of the association, etc.

Section 26. Each bank member of the clearing-house association shall furnish the manager a weekly statement of its condition, signed by its officers, on uniform blanks provided by the association, \* \* \* for the private use of each member, showing the average amount of—

1. Loans and discounts.
2. Deposits.
3. Due from banks.
4. Checks for next day's exchanges.
5. Clearing-house gold certificates.
6. All other currency.
7. Rediscounts.

#### BALTIMORE, MARYLAND.

Section 5. The executive committee are authorized to take into consideration and investigate any and all matters affecting and pertaining to the banking interests of the city which may be referred to them in writing by this association or any member thereof; to report to the association such recommendation in the case as they may deem wise and proper. Whenever they consider it for the interests of the association they are empowered to require from any member securities of such an amount and character as they deem sufficient for the protection of the balances resulting from exchanges at the clearing house. State banks, members of the clearing-house association, shall be examined in the same manner as national banks and by the national-bank examiner, etc.

Section 6. Be a depository of such moneys as any associated bank may desire, shall remain a special deposit for safe-keeping, and issue therefor certificates in concurrent amounts, etc.

Section 7. The compensation to the depositing bank shall be paid by the several banks in proportion to their respective capitals, at the rate of 30 cents per annum on each \$1,000 of capital stock.

#### SAN FRANCISCO, CALIFORNIA.

Article 14. The debtor banks shall pay to the manager at the clearing house in

Gold coin,  
Clearing-house certificates it has issued, or  
Gold certificates.

#### CHICAGO, ILLINOIS.

Section 20. All moneys paid in shall be in

Gold coin,  
Legal-tender notes,  
Treasury certificates,  
National-bank notes,  
Its own clearing-house certificates.



## WASHINGTON, DISTRICT OF COLUMBIA.

Article 16. The clearing-house committee shall have full power and authority at any time to direct an examination, by any three of its members, into the affairs and condition of any member \* \* \* for the use and information of the other members of the association, but to be otherwise confidential.

## LEXINGTON, KENTUCKY.

Article 11. No money shall pass through the clearing house in making the exchanges. [Persons unfamiliar with banking will find such "clearings" are fully described in a monograph on Money, Trade, and Banking, by J. H. Walker: Houghton, Mifflin & Co., Boston.]

## SALT LAKE CITY, UTAH.

Article 3. The members are:

Wells, Fargo & Co.,  
The Deseret National Bank,  
W. S. McCormick & Co.,  
T. R. Jones & Co.,  
The Union National Bank,  
The Commercial National Bank,  
Utah Commercial and Savings Bank,  
State Bank of Utah,  
National Bank of the Republic,  
Bank of Commerce,  
Utah National Bank.

## FORT WORTH, TEXAS.

Section 8. Debtor banks shall pay to the manager of the clearing house the balances due from them either in

Gold coin,  
United States notes, or  
National-bank bills.

## KNOXVILLE, TENNESSEE.

Section 17. Applications for membership must state, if a bank, its capital; if a private banking house, names of individual partners, name of person authorized to sign, etc.

## NORFOLK, VIRGINIA.

Section 12. The balances due the clearing house shall be paid in

Currency or  
Gold coin,

and shall be put up in packages of \$500, etc.

Section 13. The executive committee shall require from each member of the association securities of such amount and character as said committee may deem sufficient for the protection of balances resulting, etc., or other satisfactory guaranties.

Section 15. Be a depository to receive in special trust such currency as any of the members may choose to send to it for safe keeping.

## DAYTON, OHIO.

Section 14. The expenses of the clearing house shall be paid equally by each member of the association.

## PORTLAND, MAINE.

Article 13. The debtor banks shall pay to the manager of the clearing house in

Gold coin, or in its own

Clearing-house certificates,

the balances due, etc.

Article 15. Gold coin of the quantities of \$20,000, \$10,000, and \$5,000, for the payment of balances, shall be brought in sealed bags, etc.

Article 17. Clearing-house certificates payable in  
Gold coin.

## WILMINGTON, DELAWARE.

Section 9. The character of the funds to be used in payment of balances to or from the clearing house will be Philadelphia or New York exchange, excepting for amounts less than \$1,000, which may be in currency, at the option of the payers.

## SYRACUSE, NEW YORK.

Article 3, section 2. Private bankers \* \* \* may be admitted to membership by a two-thirds vote.

## LOUISVILLE, KENTUCKY.

Article 10. Each member of the association shall furnish the manager, on the first Monday of each month, a statement in tabular form of the averages for the month previous of its

Capital,

Surplus,

Loans,

Cash on hand,

Eastern exchange,

Due from banks other than Eastern,

Bills payable,

Rediscounts,

Deposits,

which shall be open to the principal officers of any member.

## KANSAS CITY.

Section 7. May examine any bank belonging to the clearing house and require any and all members to deposit \* \* \* securities of such an amount and character as shall be satisfactory to the clearing house for the purpose of securing any debt balance that may occur in the adjustment of clearances against the member making such deposit, etc. \* \* \* Shall receive bills receivable and other securities \* \* \* and issue therefor \* \* \* loan certificates to an amount not exceeding 85 per cent, etc.

Section 15. For cause deemed sufficient by the associated banks, any bank may be expelled from the association and debarred from all the privileges of the clearing house, by a majority vote, at any meeting of the association.

By-laws, section 11. Each member of the association shall furnish as often as five times a year a sworn statement of its condition, \* \* \* and at such other times and of such dates as the clearing house may require, \* \* \* open to the inspection of members only.

#### NEW YORK, NEW YORK.

Section 2. Acts as an agent only.

Section 8. May examine any bank member of the association. May require security of such amount and character, etc.

Section 16. Every bank member shall furnish a weekly statement of its condition, etc., for publication, showing the average amount of—

1. Loans and discounts.
2. Specie.
3. Legal-tender notes.
4. Circulation.
5. Deposits.

Section 17. May receive by an appointed bank in special trust  
Coin or

United States legal-tender notes

from any association for safe-keeping, or may appoint the assistant treasurer of the United States at New York a depository, etc.; certificates to be issued in exchange for such deposit, negotiable among members only.

Section 21. Standing committee may suspend any bank, but must immediately call a meeting of the association to act on the case, etc.

Page 11, resolution of April 8, 1872. That the clearing-house committee be, and is hereby, directed, whenever it appears, in its judgment, that legal-tender notes have been withdrawn from use through the agency of any bank, member of the association, to make an immediate examination of the bank in question, and should there appear to be complicity on the part of the bank or its officers, to suspend said bank from the clearing house until action of the association shall be taken thereon.

Page 13. Adopted February 14, 1872.

1. The New York Clearing House Association or any members thereof may unite for the purpose of clearing checks payable in gold.

6. The adoption of this system shall not prohibit any bank from presenting gold checks for payment to the banks on which they are drawn, etc.

## H. R. 7879.—FIFTY-FIFTH CONGRESS, SECOND SESSION.

## IN THE HOUSE OF REPRESENTATIVES.

FEBRUARY 8, 1898.—*Mr. Brosius introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.*

## A Bill To increase the circulation of national banks.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That upon deposits by national banking associations of United States bonds, bearing interest, as provided by law under the provisions of sections fifty-one hundred and fifty-nine and fifty-one and sixty of the Revised Statutes, such associations shall be entitled to receive from the Comptroller of the Currency circulating notes of different denominations in blank, registered and countersigned as provided by existing law, equal in face value to the full par value of the bonds so deposited; and national banking associations now having bonds on deposit for the security of circulating notes less in face value than the par value of the bonds, or which may hereafter have such bonds on deposit, shall be entitled, upon due application to the Comptroller of the Currency, to receive additional circulating notes in blank to an amount which will increase the aggregate value of the circulating notes held by such association to the par value of the bonds deposited, such additional notes to be held and treated in the same way as circulating notes of national banking associations heretofore issued, and subject to all the provisions of existing law affecting such notes: *Provided*, That nothing herein contained shall be construed to modify or repeal the provisions of section fifty-one hundred and sixty-seven and fifty-one hundred and seventy-one of the Revised Statutes, authorizing the Comptroller of the Currency to require additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which such bonds may be deposited as security.

SEC. 2. That every national banking association shall pay to the Treasurer of the United States each half year, in the months of January and July, on or before the thirtieth day thereof, a duty of one-eighth of one per centum upon the value of its franchise as measured by the aggregate amount of its capital, surplus, and undivided profits upon the last day of the calendar month next preceding. Sections fifty-two hundred and fourteen, fifty-two hundred and fifteen, fifty-two hundred and sixteen, and fifty-two hundred and seventeen of the Revised Statutes of the United States are hereby repealed. But nothing in this section contained shall be so construed as in any manner to release any national banking association from any liability for taxes or penalties incurred prior to the passage of this Act.

SEC. 3. That section fifty-one hundred and thirty-eight of the Revised Statutes is hereby so amended as to read as follows:

"SEC. 5138. No association shall be organized with a less capital than one hundred thousand dollars; except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and except that banks with a capital of not less than twenty-five thousand dollars may, with the

approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed two thousand inhabitants. No association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than two hundred thousand dollars."

SEC. 4. That all acts and parts of acts inconsistent with the provisions of this Act are hereby repealed.

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## H. REPORT 1883, FIFTY-FIFTH CONGRESS, THIRD SESSION.

### CIRCULATION OF NATIONAL BANKS.

FEBRUARY 1, 1899.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

Mr. VAN VOORHIS, from the Committee on Banking and Currency, submitted the following

## REPORT.

[To accompany H. R. 7879.]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 7879) to increase the circulation of national banks, having duly considered the same, respectfully report as follows:

Existing law authorizes national banks to issue circulation to the amount of 90 per cent of the par value of the bonds deposited with the Treasurer of the United States to secure circulation. By this bill it is proposed to amend existing law so as to authorize national banks to issue circulation to the par value of the bonds deposited to secure the same.

On the 30th day of January, 1899, there was deposited to secure national-bank circulation United States bonds amounting to \$236,445,840. The circulation possible under existing law on the bonds so deposited amounts to \$212,801,256. The circulation possible under a law permitting an issue up to the par of the bonds would be \$236,445,840, an increase over that of existing law of \$23,644,584.

The wisdom of amending the law so as to provide for this increased circulation does not seem to the committee to admit of doubt. There are no United States bonds now out excepting the 2 per cent bonds which are not selling in the market at a considerable premium, and therefore no possible loss could occur to the note holder by the amendment proposed, even if there was no other recourse; but when we consider that the note holders have a first lien upon all the assets of the bank in addition to the security of the bonds deposited, there can exist in no case the possibility of loss.

Under existing law the banks are deprived of a portion of their available capital for loaning purposes, and to that extent accommodations to business are withheld which otherwise might be available. It seems clear that when the banks find so little profit in their circulation as now limited that it scarcely pays to take it out, there ought to be an enlargement of their rights to issue notes so as to afford an inducement to furnish as large a measure of accommodation to the community as is compatible with entire safety to note holders.

The issuing of circulating notes to the par value of bonds deposited to secure the same is recommended by the Comptroller of the Currency, and has been heretofore recommended by every comptroller from the time of and including Comptroller Knox.

The committee is of opinion that if this bill becomes a law there will be an increase in the amount of circulation issued when the demands of business require it, and thus a distinct benefit will come both to the banks and to the community, without in the slightest degree endangering note holders.

Under existing law the only tax assessed against national banks is a tax of 1 per cent on circulation. The Comptroller of the Currency has recommended from time to time that the law assessing the tax upon circulation should be repealed, for the reason that with this additional burden there was little or no profit to the banks in issuing notes. By this bill it is proposed to amend existing law so that the tax on national banks shall be assessed upon the franchise of the banks measured by their capital, surplus, and undivided profits. A tax of one-eighth of 1 per cent each six months will realize to the Government somewhat more than the present tax on circulation, and will be equally distributed. The tax of 1 per cent on circulation outstanding January 30, 1899, would amount to \$2,111,289. The tax assessed by this proposed amendment on capital, surplus, and undivided profits, as shown by bank statement of December 1, 1898, would amount to \$2,408,953.

Under the existing law the minimum capital stock required for the organization of a national bank is \$50,000. In some sections of the country there has been a growing need for bank issues, as well as for other banking accommodations, in small towns in which the amount of \$50,000 can not readily be raised for banking purposes. The inequality in the distribution of national banks is one of the marked features of our national banking system. In the Eastern and Middle States banks are abundant and this alteration in the law would not be availed of to any considerable extent; but in the Western and Southern States there is a dearth of banks in many sections, due, no doubt, to the lack of capital in those sections.

The following statement illustrates the situation:

*Statement of banks, bank stock, and bank circulation in the States named.*

States.	Number of banks.	Bank stock.	Bank circulation.
Massachusetts .....	268	\$97,017,500	\$31,511,706
Pennsylvania .....	412	74,233,129	27,609,870
New York .....	334	87,136,060	35,623,522
Ohio .....	248	45,645,338	15,714,986
Illinois .....	220	38,696,000	7,322,015
Indiana .....	114	14,372,000	5,521,060
New Jersey .....	102	14,385,000	4,968,527
Iowa .....	168	18,510,000	3,865,399
North Carolina .....	27	2,716,000	830,067
South Carolina .....	16	1,918,000	540,473
Georgia .....	29	3,666,000	1,143,504
Florida .....	13	1,485,000	368,668
Alabama .....	26	3,585,000	1,206,823
Mississippi .....	18	755,000	249,532
Louisiana .....	21	3,735,000	1,349,892
Arkansas .....	9	1,220,000	279,916

It thus appears that a marked discrepancy exists in the bank circulation and accommodations in the different sections of the country. This inequality may be remedied in part, at least, and the existing need met to some extent in the sections where there is a dearth of bank

issues and banks are so remote from each other as to afford grossly inadequate accommodations. Relief of this character has been recommended by those best qualified to judge, and meets the approval of the Comptroller of the Currency, who is most familiar with the banking needs of the country.

Your committee therefore recommend the passage of the bill, with the following amendment:

In line 12, page 3, strike out the word "two" and insert "three," making it read "three thousand inhabitants."





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